DEVELOPED MINERAL REVERSIONS

ON ACQUIRED LANDS

Prepared By

Timothy F. Abing, Petroleum Engineer

Bureau of Land Management

Milwaukee District Office

October 29,1990

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STAFF REPORT: Developed Mineral Reversions on Acquired Lands

INTRODUCTION

This report with attachments constitutes my analysis and recommendations of a natural resource management issue in fulfillment of the requirement for successful completion of the Management & Leadership Workshop which I had attended from February 29 - March 10, 1988. As it is management's prerogative to redirect program priorities to accommodate changing circumstances, the management issue that is the subject of this report digresses from my original proposal (unplugged oil and gas wells on acquired lands) to address an equally critical but more urgent matter. Federal mineral reversions that contain producing oil and gas wells represented a unique circumstance that required priority attention because of specific timeframes. This situation encompassed a variety of political, environmental, and technical elements that made for an interesting case study in natural resource management. By undertaking this project, I had direct involvement in a negotiated compromise between the Bureau of Land Management, the Forest Service, and the independent oil and gas producers that operate on acquired lands in the Wayne National Forest. This compromise should result in more cost effective minerals management that still provides for maximum economic recovery of oil and gas resource.

MANAGEMENT SUMMARY

When mineral rights revert to the United States and host a producible well where the lease rights will expire upon the reversion date, the Eastern States Office (ESO) will offer current well operators the option of: 1) entering into a "restricted" compensatory royalty agreement (CRA) when it is in the public's interest to do so, or 2) subjecting the tract containing the well(s) to competitive leasing . A "restricted" CRA would allow an operator to retain ownership and operation of the affected well with the minimum acreage necessary to form a legal spacing unit. The public interest requirement would be met if the well is producing hydrocarbons at such low volumes that it is unlikely that the marketplace will timely resolve the ownership/operation issue if the land were to be competitively leased. A restricted CRA would only authorize operation of the well subject to current BLM regulations and payment of royalties to the United States.

To ensure that the continued operation of the well under the CRA option is consistent with those uses intended by the Surface Managing Agency (SMA), the SMA will perform the appropriate level of NEPA documentation and issue a permit to the well operator that authorizes occupancy of the surface. Both the approved CRA and the surface use permit are required to officially implement this option.

If the well operator chooses the competitive leasing option, the entire tract containing the well would be offered at the next scheduled lease sale. The lease sale notice would specify that improvements on the tract (i.e. the well) are still property of the original operator and that assignment and/or sale arrangements must be made to resolve ultimate disposition of the well.

BLM LIBRARY
SC-653, BLDG. 50
DENVER FEDERAL CENTER
P. O. BOX 25047
DENVER, CO 80225-0047

BACKGROUND

Surface management agencies often acquire tracts of land which are subject to a private mineral reservation for a specified period of time. Occasionally, private lease agreements are entered into after the United States has acquired its "future interest"; sometimes resulting in the drilling of producible oil and gas well(s). According to property law, these private leases expire on the date the minerals revert to the Federal Government regardless of the presence of wells that are capable of producing in paying quantities, normally qualifying the lease for extension beyond its primary term. This situation leaves the well operators without any legal authority to produce their wells. In the past, BLM has dealt with this situation by subjecting the now "unleased" parcel containing the well to competitive leasing. If the well owner was not the successful bidder at the lease sale, he/she had to negotiate with the new lessee to either sell the well or purchase operating rights. For most instances, the marketplace would quickly resolve the situation. However, wells producing at extremely low volumes have defied a free enterprise resolution because of characteristically fragile economics. In the few instances of "developed mineral reversions" with low profit wells that have transpired to date, competitive leasing has resulted in lost oil and gas reserves, lost royalty revenue, excessive administrative costs, and a negative attitude towards BLM and the surface managing agency.

Because of the unique circumstances surrounding developed mineral reversions, BLM has discretionary authority to employ an administrative procedure other than competitive leasing to resolve the problems associated with low volume wells. A "restricted" compensatory royalty agreement (CRA) with affected operators can be an effective administrative tool to resolve a number of problems that are likely to be encountered. Use of restricted CRA's have a number of distinct advantages over competitive leasing and represent an equitable compromise for all involved parties. Preliminary estimates indicate use of this approach could result in as much as an 8 to 1 administrative cost savings to the Government.

CHRONOLOGY

The following chronology highlights my involvement and other pertinent events that led to my findings and recommendations regarding the use of CRA's on producing mineral reversions. This chronology is substantiated by assorted documents contained within and are presented in the form of a case file on the issue. Tabs are provided to crossreference specific events in this chronology with those documents in the file that were critical towards the end result of the project.

January 4, 1989 - The Record of Decision for the Final EIS of the Land and Resource Management Plan for the Wayne National Forest recommends to BLM that existing oil and gas operators should be given priority status in continuing on a noncompetitive basis when mineral rights revert to the U.S. (See Tab "A")

February 22 - 23, 1989 - At the request of the Southeast Ohio Oil & Gas Association (SOOGA), I participate in a tour of oil and gas operations within the Wayne National Forest. I meet with local independent producers and Forest Service representatives to discuss concerns over BLM's approach to developed mineral reversions. I make a presentation on the matter at the regional meeting of the Ohio Oil & Gas Association. (See Tab "B")

March 27, 1989 - I prepare a staff report on the problems associated with developed mineral reversions for submittal to the State Director, Eastern States Office. (See Tab "C")

May 8,1989 - I travel to Ohio to participate in a fact-finding tour with Chris Allman, aide to Ohio Congressman Robert McEwen. SOOGA seeks legislative relief as an alternative to an administrative resolution to concerns over developed mineral reversions.

May 19, 1989 - The Forester of the Marietta Unit, Wayne N.F.'s Marietta Unit acknowledges my staff report "captured the essence of the reversion problem".

May 25, 1989 - Congressman McEwen introduces H.R. 2501, a bill to amend the Mineral Leasing Act. (See Tab "D")

June 21, 1989 - Congressman McEwen sends a letter to Secretary Lujan inquiring about the use of administrative means to rectify the situation. (See Tab "E")

September 14, 1989 - Secretary Lujan responds to McEwen with a report prepared by the BLM Eastern States Office which, in short, states that competitive leasing is the only action available to BLM in this matter. (See Tab "E")

December 1, 1989 - I prepare a memorandum to the State Director proposing use of compensatory royalty agreements (CRA) as an alternative to competitive leasing. The memo documents the authority, justification, and benefits to be derived by using CRA's. (See Tab "F")

December 4, 1989 - I make an oral presentation to the State Director and his staff on my proposal.

January 10,1990 - The Deputy State Director for Mineral Resources instructs the Milwaukee District to initiate action to set up compensatory royalty agreements for those wells on minerals that will revert in 1990. (See Tab "G")

February 26, 1990 - I brief the Forest Supervisor and involved staff of the Wayne-Hoosier National Forest on the use of CRA's and partake in the discussion of appropriate NEPA documentation for the decision. Members of SOOGA were also in attendance.

April 9, 1990 - A meeting of the Forest Service Regional Natural Resources Group (provides advice to the Regional Forester) discusses the CRA issue and Forest Service responsibilities in authorizing such an action.

April 27,1990 - SOOGA updates its members via newsletter on the status of CRA negotiations. They are not pleased with the pace at which the Forest Service is moving on the issue. (See Tab "H")

May 11, 1990 - The Wayne National Forest issues a decision memo stating its intent to issue special use permits (SUP) as a means of authorizing surface occupancy for wells where a CRA will be issued by BLM. (See Tab "I")

May 30, 1990 - I travel to Columbus, Ohio meet with Tom Tugend and Mike McCormick of the Ohio Department of Natural Resources, Oil and Gas Division to discuss the use of CRA's on Federal lands in Ohio and their interrelationship with State requirements. The subject of bonding was discussed at length.

May 31, 1990 - I meet with SOOGA representatives to go over the proposed CRA item by item to ensure a complete understanding of the CRA terms.

June 12, 1990 - SOOGA representatives travel to Washington, D.C. to meet with their Congressmen, Forest Service WO Minerals Staff, and the BLM State Director, Eastern States Office to voice their support of the use of CRA's and to encourage its quick implementation.

June 21,1990 - The Forest Service notifies operator of the first eligible mineral reversion of the procedure for obtaining a SUP.

July 10,1990 - BLM Eastern States Office sends proposed CRA to operator of the first eligible mineral reversion.

August 29, 1990 - The Forest Service sends notice to the operators of 20 wells where mineral rights will revert in 1991, of the CRA/SUP option.

September 20, 1990 - My work with the CRA issue is recognized with a Special Achievement Award from the Acting State Director.

September 21,1990 - The Milwaukee District Office transmits a copy of the CRA form developed for mineral reversions to the operators identified by the Forest Service as having wells on minerals that will revert in 1991.

October 11, 1990 - The first "restricted" CRA is approved by BLM Eastern States Office. (See Tab "J")

SUMMARY

Developed mineral reversions represent one of the many unique and legally complex situations that are frequently encountered in Federal minerals management. Unfortunately, this particular situation was not the source of any significant royalty revenues for the United States and was a relatively isolated problem that didn't command much attention on a Bureau-wide level. The issue had all but fallen between policy and procedural "cracks" and would have cost BLM far more to administer than would ever be recouped in royalties. However, by selecting this issue as my Management & Leadership

Workshop project, I devoted more time to the matter than would normally be allotted to such low priority work. By doing so, I was able to carefully analyze the circumstances and offer an economical alternative which had been overlooked. I have proposed a compromise that addresses concerns of the affected operators and the Forest Service while still preserving the integrity of BLM's mandate to efficiently manage mineral resources.

"Restricted" Compensatory Royalty Agreements will be used in Eastern States as the administrative means to resolve the many problems associated with developed mineral reversions. It may not be the perfect solution to the problem, but it represents a proactive approach to minerals management and a willingness of BLM managers to employ innovation, even with some degree of risk.

Timothy F. Abing

Attachments

United States Department of the Interior

BUREAU OF LAND MANAGEMENT
EASTERN STATES OFFICE
350 SOUTH PICKETT STREET
ALEXANDRIA, VIRGINIA 22304

TAKE PRIDE IN AMERICA

IN REPLY
REFER TO:

3100(972)A05
OHES 041969

OCT 9 1990

BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE
OCT 16 1990
RECEIVED

Mr. Carl Heinrich
Greenbrier Energy, Inc.
Box 305
Reno, Ohio 45773

Dear Mr. Heinrich:

Enclosed is one approved copy of a compensatory royalty agreement involving a 20 acre production unit containing the Wallace #1 Well. Said production unit, located in Section 14, Washington Township, Monroe County, Ohio, is part of a 62.32 acre tract in which the mineral rights reverted to the United States on July 1, 1990. This agreement is effective July 1, 1990 and has been designated as Compensatory Royalty Agreement OHES 041969.

The agreement provides for monies to be paid to the United States by Greenbriar Energy, Incorporated, as compensatory royalty in lieu of leasing the said 20 acre Federal tract. As defined in Article II of the agreement, this compensatory royalty agreement provides for payment of 12.5 percent royalty of the production removed or sold from the subject area.

As per the terms of Article III of the compensatory royalty agreement, please furnish evidence of the following if you have not already done so:

a.) Well ownership and/or registration with the appropriate state authority for all wells that presently exist within the agreement area.

b.) Bonding with the appropriate state authority.

c.) Well completion records for the subject well. (A copy of Well completion Report Form 3160-4 is enclosed for your convenience.

If you should have any questions, please contact Arney Smits at (703) 461-1336.

Sincerely,

Stuart Carlson
Deputy State Director,
Mineral Resources

2 Enclosures

1. Agreement OHES 041969
2. Form 3160-4

COMPENSATORY ROYALTY AGREEMENT
No. OHES 041969

This Agreement made and entered into this 20th day of June, 1990, by and between the United States of America, through the Secretary of the Interior, or his designated representative, hereinafter called "United States", and Greenbriar Energy, Incorporated, hereinafter called "Operator".

WITNESSETH:

WHEREAS, through a mineral reversion effective July 1, 1990, the United States will acquired a one hundred percent (100%) mineral interest in the lands described in Exhibit "A", attached to and made part hereof.

WHEREAS, Operator certifies that he/she is presently possesses the right to occupy the subject mineral estate by virtue of a lease between Everett and Mary Wallace and Strata Petroleum, Incorporated entered into on June 2, 1980 and recorded at Volume 116; Page 663 of the Monroe County Records, and subsequent assignments thereof.

WHEREAS, Operator certifies that he/she is the legal owner of the Wallace #1 Well (API #34-111-22113) and is located on the 20-acre spacing unit described in Exhibit "B", attached to and made a part hereof.

WHEREAS, said lease contains a well capable of producing in paying quantities that was drilled under the authority of the private lease issued after the date the United States acquired its future mineral interest in the subject lands but prior to the date of reversion.

WHEREAS, the term of the involved private lease will expire upon the date of vesting to the United States.

WHEREAS, the United States has determined that it would be in the public's interest to enter into a compensatory royalty agreement as authorized by 30 U.S.C. 226. Said agreement shall cover the lands described in Exhibit "A".

NOW, THEREFORE, in consideration of the said premises and covenants and Agreements hereinafter contained, and of the compensation to be paid the United States by the Operator, as hereinafter provided, it is expressly understood and agreed by and between the United States and the Operator, as follows:

ARTICLE I

This Agreement grants to the Operator, the exclusive right to extract, remove and dispose of all the oil and gas (except helium) in the drilling unit described in exhibit "B" together with the right to maintain necessary improvements thereupon for as long as this Agreement remains in force and effect. The rights granted are subject to applicable laws, the terms and conditions of this Agreement, the Secretaries of the Interior's and Agriculture's regulations and formal orders in effect as of the date of this Agreement, and to regulations and formal orders hereafter promulgated when not inconsistent with the rights granted or specific provisions of this Agreement.

ARTICLE II

Operator will pay the United States $60.00, representing compensation for the estimated bonus the United States would have received on said 20 acres had the 20-acre tract been leased competitively. Beginning with the date of mineral reversion, Operator will pay quarterly to the United States a royalty of 12.5% on production removed or sold from the subject area. Royalties shall be due and payable on the last day of the month following the quarter in which production occurred. Each payment shall be accompanied by the statement of oil and gas produced, saved and marketed during the period for which payment is made. All payments shall be made by check drawn to the order of the Minerals Management Service, P.O. Box 25165, Denver, Colorado 80225.

Minimum royalty in the amount of $2.00 per acre or $40 shall be payable at the end of each year following the date of this Agreement should actual production royalties amount to less than this predetermined value. This minimum royalty may be waived, suspended, or reduced, and the above royalty rates may be reduced, for all or portions of this agreement if the Secretary determines that such action is necessary to encourage the greatest ultimate recovery of the resources.

An interest charge shall be assessed on late royalty payments or underpayments in accordance with the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) (30 U.S.C. 1701). Operator shall be liable for royalty payments on oil and gas lost or wasted from the subject lands when such loss or waste is due to negligence on the part of the operator, or due to the failure to comply with any rule, regulation, order, or citation applicable to this agreement. This agreement also binds the operator to all requirements of the Minerals Management Service that relate to the valuation, reporting and accounting of Federal production and royalties.

ARTICLE III

The operator hereby agrees to furnish the Bureau of Land Management - Eastern States Office (ESO) evidence of the following:

a.) Well ownership and/or registration with the appropriate state authority for all wells that presently exist within the agreement area;

b.) Bonding with the appropriate state authority;

c.) Well completion records for the subject wells.

If the well(s) is not registered, permitted or bonded with the State, the operator agrees to comply with all necessary requirements to do so. The United States reserves the right to subject operations under this Agreement to Federal bonding regulations (43 CFR 3104) if necessary to protect the public's interest.

ARTICLE IV

Operator shall exercise reasonable diligence in the conduct of operations authorized by this Agreement, and shall prevent unnecessary damage to, loss of, or waste of Federal resources. The United States reserves the right to require operator to subscribe to a unit plan, within 30 days of notice, if deemed necessary for conservation of resources within the Agreement area. Operator shall take necessary action to protect lands subject to this Agreement from drainage or pay compensatory royalty for drainage in amount determined by the United States.

ARTICLE V

During the life of this Agreement the United States will not issue any oil and gas leases covering the drilling unit described in Exhibit "B". This agreement applies to only the drilling unit described in Exhibit "B" and is not to be construed as affecting in any manner any right, title and interest owned or claimed by the parties hereto in and to any other land.

ARTICLE VI

Operator shall keep open at all reasonable times for inspection and audit by any authorized officer of the United States, the subject premises and all wells, improvements, machinery, and fixtures thereon, and all books, accounts, maps, and records relative to operation, surveys, or investigations on or in the lands subject to this Agreement. Operator shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that supports costs claimed as manufacturing, preparation, and/or transportation costs. All such records shall be maintained by the operator for 6 years after they are generated. At such times and in such form as the United States may prescribe, the operator shall furnish copies of relative information when required.

ARTICLE VII

This Agreement shall become effective July 1, 1990 and shall continue in full force and effect so long as said Agreement contains a well capable of producing in paying quantities and use of the surface is authorized by a Special Use Permit executed by the Secretary of Agriculture. It is expressly understood by the Operator that both of these conditions must be met in order for continued operation of the subject well.

ARTICLE VIII

The United States will not acquire by this Agreement any right or authority to supervise or control the production or marketing of oil and gas from said tract, the full power of management, supervision and control of Operator's business remaining in Operator.

ARTICLE IX

If the operator fails to comply with any provision of this Agreement, and the noncompliance continues for 30 days after written notice thereof, the United States shall have the right and privilege to cancel and terminate this Agreement.

ARTICLE X

The Operator shall file in . ith the Bureau of Land Management-Eastern States Office (BLM-ESO) any assignment or other transfer of an interest in this Agreement. This Agreement and all of its provisions shall be binding upon and extend to the heirs, administrators, executors, personal representatives, successors and assigns of the parties hereto. Operator may relinquish this Agreement or any legal subdivision by filing with BLM-ESO a written relinquishment, which shall be effective as of the date of filing, subject to the continued obligation of the Operator and/or surety to pay all accrued royalties and minimum royalties.

ARTICLE XI

At such times as all or portions of land in this Agreement are returned to the United States, the Operator shall place affected wells in condition for suspension or abandonment, reclaim the land as specified by the United States and, within a reasonable period of time, remove equipment and improvements not deemed necessary by the United States for preservation of producible wells.

ARTICLE XII

It is also further agreed that no member of, or delegate to Congress, or Resident Commissioner, after his election or appointment, or either before or after he has qualified and during his continuance in office, and that no officer, agent or employee of the Department of the Interior shall be admitted to any share or part in this Agreement or derive any benefit that may arise therefrom, and the provisions of Section 3741 of the Revised Statutes of the United States, as amended (41 U.S.C. 22), and Sections 431, 432, and 433, Title 18, U.S. Code, relating to contracts, enter into and form a part of this agreement so far as the same may be applicable.

ARTICLE XIII

Nondiscrimination: In connection with the performance or work under this agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, or Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference herein.

IN WITNESS thereof, Operator has caused these presents to be executed in its corporate name by its proper officials hereunto duly authorized; and the United States has caused these presents to be executed by its Secretary of the Interior or his designated representative, all on the day and year first above written.

Stuart J. Faulkner — 10/11/90

BUREAU OF LAND MANAGEMENT — DATE
UNITED STATES DEPARTMENT OF THE INTERIOR

Carl Heinrich PRES — _____

OPERATOR GREGG/BIG GREEN INC. — DATE

United States Department of the Interior

TAKE PRIDE IN AMERICA

BUREAU OF LAND MANAGEMENT
EASTERN STATES OFFICE
350 SOUTH PICKETT STREET
ALEXANDRIA, VIRGINIA 22304

IN REPLY REFER TO:
1400-451

SEP 2 0 1990

Mr. Timothy F. Abing
Bureau of Land Management
Milwaukee District Office
Milwaukee, Wisconsin 53201

Dear Tim:

It is a pleasure to present this Special Achievement Award to you in recognition of your outstanding effort with respect to the use of compensatory royalty agreements as a means of resolving the Bureau's problem with respect to administering reverting oil and gas rights which are in production.

The "restricted" compensatory agreement approach to resolving this problem was an idea of yours to which you committed a great deal of professional thought and personal time. You pursued this effort at times in spite of opposition from other agencies, the oil and gas industry, the Bureau itself and Congressional intervention.

Your efforts to facilitate the development of this idea by coordinating agency-industry meetings, conducting briefings of Bureau and Congressional representatives and developing the forms and format for the agreements with the Forest Service and industry have resulted in model agreements that can be used nationwide. Your efforts have also resulted in an approach which 1) encourages maximum economic recovery of the oil and gas resource, 2) minimizes administrative costs to the government, 3) recovers the maximum monetary yield to the United States, 4) preserves the intent of the Mineral Leasing Act(s), and 5) is the best public interest with respect to both resource conservation and efficiency in government.

Your individual effort and time spent is an excellent example of your professional commitment to good resource management and effective management of the mineral resources. Your efforts in this regard will directly benefit the Bureau and ensure future program integrity and cooperation.

I congratulate you on this award which recognizes your outstanding contribution to the Milwaukee District, Eastern States and the Bureau of Land Management. A copy of this letter will be placed in your official personnel file.

Sincerely,

Good work!

Robert J Bamridge

Acting State Director

cc:OPF

039:TFA
3100

SEP 2 1 1990

Braden Development Company
Route 1, Box 271
Marietta, Ohio 45750

Dear Operator:

In follow-up to the August 29, 1990 letter you received from the Forest Supervisor of the Wayne National Forest, we wish to provide you with further information regarding the application of a Compensatory Royalty Agreement (CRA) to your well(s) located on mineral rights that will revert to the United States. Enclosed is a copy of a proposed CRA for your review and use should you decide to exercise this option.

This situation is the result of your lease being issued after the Federal Government acquired its future interest. Legally, your lease rights expire on the date the minerals revert to the United States. Because of the unique situation presented by mineral reversions that contain oil and gas wells producing at relatively low rates, the Bureau of Land Management (BLM) has determined that it would be in the public interest to offer current operators of said wells the option to:

1. Continue to own and operate existing producing wells on the minimum acreage allowable under State spacing requirements, or;

2. Offer the entire acreage of the original lease to the highest bidder at the next scheduled lease sale.

The first option would require you to enter into a CRA with the BLM and obtain a Special Use Permit (SUP) from the Forest Service for each involved well. The remaining acreage of the original lease would then be offered to the highest bidder at the next scheduled Federal lease sale.

Under the second option, you would have to shut-in your well(s) until the acreage is leased to the highest bidder at the next scheduled Federal lease sale. It is important to note here that if you are not the successful bidder for the lease, the new lessee does not acquire any interest in your lease improvements (i.e. well and production equipment). However, you would then have to either sell your lease improvements to the new lessee, obtain the right to produce the lease from the new lessee, or remove your improvements from the leased area. In any event, you are still ultimately responsible for proper plugging and abandonment of the involved wells, unless arrangements are made to properly transfer this responsibility to another lessee/operator.

If you decide to choose the CRA option, complete the appropriate blanks on the enclosed CRA form and submit to:

Deputy State Director for Mineral Resources
Bureau of Land Management
Eastern States Office
350 South Pickett Street
Alexandria, Virginia 22304

The processing of a CRA will also require submission of the following supporting documentation:

1. A map or legal description of the original lease area;
2. A map or survey plat showing the well location;
3. Evidence of well ownership/registration with the State of Ohio;
4. Evidence of bonding with the BLM or State of Ohio;
5. Well completion information for affected well(s);
6. Current production information from affected well(s).

Article II of the CRA calls for payment of a bonus bid to the United States which represents the compensation the Government would have received if the tract were competitively leased. The per acre value is determined on a case by case basis using relevant landman publications, local market conditions, and current consumer price index information. The minimum acceptable value is $2.00 per acre. You may suggest a bonus bid, but be prepared to support your figure as suggested bids will be independently corroborated.

If you have any questions regarding this matter, please contact Tim Abing at (414) 297-4438.

Sincerely,

(ORG. SGD.) CHRIS E. HANSON

Chris Hanson
Assistant District Manager
Fluid Minerals

Enclosure

cc: A. Smits (972)
Linda Smith, USDA-FS - Bedford, IN
030:TAbing:jdh:9/20/90:6311D

The following operators received the same letter:

Mr. Dave Swelley
Quaker State Corporation
1226 Putnam Howe Drive
Belpre, Ohio 45714

Carl Poston
C/O Poston Operating Company
P.O. Box 367
Ashley, Ohio 43003

Oxford Oil Company
4900 Boggs Road
Zanesville, Ohio 43701

Ross Partnership
Box 1030
Toledo, Ohio 43697

Halwell Limited Partnership
423 Second Street
Marietta, Ohio 45750

Kenoil
7945 Shreve Road
Shreve, Ohio 44676

A & R Energy, Incorporated
P.O. Box 15585
Pittsburgh, Pennsylvania 15244

Western Resources, Incorporated
1300 North 17 Street, Suite 1400
Rosslyn, Virginia 22209

Tri-Sands Petroleum Group, Incorporated
4041 University Drive, Suite 301
Fairfax, Virginia 22030

Greenbrier Energy, Incorporated
Box 305
Reno, Ohio 45773

COMPENSATORY ROYALTY AGREEMENT
No._____
(For BLM Use Only)

This Agreement made and entered into this _____ day of _____, 19___, by and between the United States of America, through the Secretary of the Interior, or his designated representative, hereinafter called "United States", and _____, hereinafter called "Operator".

WITNESSETH:

WHEREAS, through a mineral reversion effective _____, the United States has acquired a one hundred percent (100%) mineral interest in the lands described in Exhibit "A", attached to and made part hereof.

WHEREAS, Operator certifies that he/she is presently possesses the right to occupy the subject mineral estate by virtue of a lease between _____ and_____ entered into on_____and recorded at Volume_____; Page_____ of the _____ County Records.

WHEREAS, Operator certifies that he/she is the owner of the _____ Well completed in the _____ Formation and is located on the ___-acre spacing unit described in Exhibit "B", attached to and made a part hereof.

WHEREAS, said lease contains a well capable of producing in paying quantities that was drilled under the authority of the private lease issued after the date the United States acquired its future mineral interest in the subject lands but prior to the date of reversion.

WHEREAS, the term of the involved private lease will expire upon the date of vesting to the United States.

WHEREAS, the United States has determined that it would be in the public's interest to enter into a compensatory royalty agreement as authorized by 30 U.S.C. 226. Said agreement shall cover the lands described in Exhibit "A" .

NOW, THEREFORE, in consideration of the said premises and covenants and Agreements hereinafter contained, and of the compensation to be paid the United States by the Operator, as hereinafter provided, it is expressly understood and agreed by and between the United States and the Operator, as follows:

ARTICLE I

This Agreement grants to the Operator, the exclusive right to extract, remove and dispose of all the oil and gas (except helium) in the drilling unit described in Exhibit "B" together with the right to maintain necessary improvements thereupon for as long as this Agreement remains in force and effect. The rights granted are subject to applicable laws, the terms and conditions of this Agreement, the Secretaries of the Interior's and Agriculture's regulations and formal orders in effect as of the date of this Agreement, and to regulations and formal orders hereafter promulgated when not inconsistent with the rights granted or specific provisions of this Agreement.

ARTICLE II

Operator will pay the United States $_____, representing compensation for the estimated bonus the United States would have received on said __ acres had the __-acre tract been leased competitively. Beginning with the date of mineral reversion, Operator will pay quarterly to the United States a royalty of 12.5% on production removed or sold from the subject area. Royalties shall be due and payable on the last day of the month following the quarter in which production occurred. Each payment shall be accompanied by the statement of oil and gas produced, saved and marketed during the period for which payment is made. All payments shall be made by check drawn to the order of the Minerals Management Service, P.O. Box 25165, Denver, Colorado 80225.

Minimum royalty in the amount of $2.00 per acre or $___ shall be payable at the end of each year following the date of this Agreement should actual production royalties amount to less than this predetermined value. This minimum royalty may be waived, suspended, or reduced, and the above royalty rates may be reduced, for all or portions of this agreement if the Secretary determines that such action is necessary to encourage the greatest ultimate recovery of the resources.

An interest charge shall be assessed on late royalty payments or underpayments in accordance with the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) (30 U.S.C. 1701). Operator shall be liable for royalty payments on oil and gas lost or wasted from the subject lands when such loss or waste is due to negligence on the part of the operator, or due to the failure to comply with any rule, regulation, order, or citation applicable to this agreement. This agreement also binds the operator to all requirements of the Minerals Management Service that relate to the valuation, reporting and accounting of Federal production and royalties.

ARTICLE III

The operator hereby agrees to furnish the Bureau of Land Management - Milwaukee District Office (MDO) evidence of the following:

a.) Well ownership and/or registration with the appropriate state authority for all wells that presently exist within the agreement area;

b.) Bonding with the appropriate state authority;

c.) Well completion records for the subject wells.

If the well(s) is not registered, permitted or bonded with the State, the operator agrees to comply with all necessary requirements to do so. The United States reserves the right to subject operations under this Agreement to Federal bonding regulations (43 CFR 3104) if necessary to protect the public's interest.

ARTICLE IV

Operator shall exercise reasonable diligence in the conduct of operations authorized by this Agreement, and shall prevent unnecessary damage to, loss of, or waste of Federal resources. The United States reserves the right to require operator to subscribe to a unit plan, within 30 days of notice, if deemed necessary for conservation of resources within the Agreement area. Operator shall take necessary action to protect lands subject to this Agreement from drainage or pay compensatory royalty for drainage in amount determined by the United States.

ARTICLE V

During the life of this Agreement the United States will not issue any oil and gas leases covering the drilling unit described in Exhibit "B". This agreement applies to only the drilling unit described in Exhibit "B" and is not to be construed as affecting in any manner any right, title and interest owned or claimed by the parties hereto in and to any other land.

ARTICLE VI

Operator shall keep open at all reasonable times for inspection and audit by any authorized officer of the United States, the subject premises and all wells, improvements, machinery, and fixtures thereon, and all books, accounts, maps, and records relative to operation, surveys, or investigations on or in the lands subject to this Agreement. Operator shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that supports costs claimed as manufacturing, preparation, and/or transportation costs. All such records shall be maintained by the operator for 6 years after they are generated. At such times and in such form as the United States may prescribe, the operator shall furnish copies of relative information when required.

ARTICLE VII

This Agreement shall become effective _____ and shall continue in full force and effect so long as said Agreement contains a well capable of producing in paying quantities and use of the surface is authorized by a Special Use Permit executed by the Secretary of Agriculture. It is expressly understood by the Operator that both of these conditions must be met in order for continued operation of the subject well.

ARTICLE VIII

The United States will not acquire by this Agreement any right or authority to supervise or control the production or marketing of oil and gas from said tract, the full power of management, supervision and control of Operator's business remaining in Operator.

ARTICLE IX

If the operator fails to comply with any provision of this Agreement, and the noncompliance continues for 30 days after written notice thereof, the United States shall have the right and privilege to cancel and terminate this Agreement.

ARTICLE X

The Operator shall file in advance with the Bureau of Land Management-Eastern States Office (BLM-ESO) any assignment or other transfer of an interest in this Agreement. This Agreement and all of its provisions shall be binding upon and extend to the heirs, administrators, executors, personal representatives, successors and assigns of the parties hereto. Operator may relinquish this Agreement or any legal subdivision by filing with BLM-ESO a written relinquishment, which shall be effective as of the date of filing, subject to the continued obligation of the Operator and/or surety to pay all accrued royalties and minimum royalties.

ARTICLE XI

At such times as all or portions of land in this Agreement are returned to the United States, the Operator shall place affected wells in condition for suspension or abandonment, reclaim the land as specified by the United States and, within a reasonable period of time, remove equipment and improvements not deemed necessary by the United States for preservation of producible wells.

ARTICLE XII

It is also further agreed that no member of, or delegate to Congress, or Resident Commissioner, after his election or appointment, or either before or after he has qualified and during his continuance in office, and that no officer, agent or employee of the Department of the Interior shall be admitted to any share or part in this Agreement or derive any benefit that may arise therefrom, and the provisions of Section 3741 of the Revised Statutes of the United States, as amended (41 U.S.C. 22), and Sections 431, 432, and 433, Title 18, U.S. Code, relating to contracts, enter into and form a part of this agreement so far as the same may be applicable.

ARTICLE XIII

Nondiscrimination: In connection with the performance or work under this agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, or Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference herein.

IN WITNESS thereof, Operator has caused these presents to be executed in its corporate name by its proper officials hereunto duly authorized; and the United States has caused these presents to be executed by its Secretary of the Interior or his designated representative, all on the day and year first above written.

_____ _____

BUREAU OF LAND MANAGEMENT DATE
UNITED STATES DEPARTMENT OF THE INTERIOR

_____ _____

OPERATOR DATE

United States Department of Agriculture
Forest Service
Wayne-Hoosier National Forest
811 Constitution Avenue
Bedford, IN 47421
812-275-5987

Caring for the Land and Serving People

Reply to: 2830 (2820)

Date: August 29, 1990

Note: Similar notice sent to operators of 19 other wells in the Wayne N.F.

Braden Development Company
Route 1, Box 271
Marietta, OH 45750

CERTITIED MAIL #P 481 130 360 - RETURN RECEIPT REQUESTED

Dear Sir:

The mineral rights revert to the United States effective November 8, 1990 on a tract located on the Wayne National Forest in Township 2 North, Range 6 West, Section 30, Washington County, Ohio. Braden Development Company is currently operating one well on the Enochs Lease which is located on this tract. Since the mineral rights will be reverting to the United States, the operator has the option of applying for a Compensatory Royalty Agreement (CRA) or subjecting the acreage to the competitive leasing process. You should contact the Bureau of Land Management (BLM) stating which option you prefer. The address for BLM is:

Stuart F. Carlson
Deputy State Director, Mineral Resources
Bureau of Land Management
Eastern States Office
350 South Pickett Street
Alexandria, Virginia 22304

The CRA would allow continued production of your well(s) but would not allow any new activity. The CRA applies to the operation and maintenance of the producing well only and would be issued for the minimum acreage allowable under State spacing requirements for that particular well. The CRA is issued by BLM and is not valid unless authorization for surface occupancy has been issued by the Forest Service. This authorization will be in the form of a Special Use Permit much like the permit under which you are currently operating. The Forest Service must be notified at least 45 days prior to the date of reversion in order to process a special use permit and have it signed by all parties by the reversion date. After the reversion date, continued production of the involved well without the authorization of a Federal lease or a CRA would be considered a trespass and theft of Federal minerals.

The Forest Service cannot consent to lease lands on the Wayne National Forest until completion of an Environmental Impact Statement (EIS). This EIS will result in an amendment to the Wayne National Forest and Resource Management Plan. We anticipate completion of the EIS and Plan Amendment in the Spring of 1991. Until such time, we are unable to consent to leasing federal minerals. Therefore, if you wish to contine producing your well(s) you must obtain both a CRA and Special Use Permit.

If you have any questions concerning this process, please contact Linda Smith of my staff.

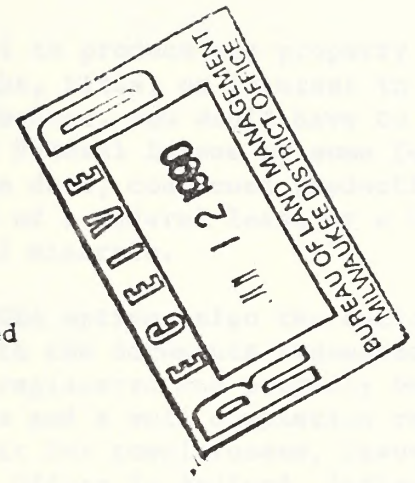
Sincerely,

Francis J. Voytas
Forest Supervisor

cc: District Unit
BLM - Mlw. Dist. - Tim Abing
D.Harrell

LSMITH:dsh

3103(970)KTF



JUL 10 1990

Carl Heinrich, President
Greenbrier Energy, Incorporated
Box 305
Reno, Ohio 45773

Dear Mr. Heinrich:

A number of legal and environmental issues have required us to substantially modify the proposed Compensatory Royalty Agreement (CRA) that was sent to you on February 2, 1990. That original agreement is now replaced with the attached CRA which incorporates additional conditions necessitated by current mineral and environmental law.

As you are aware, the most significant change is due to the Forest Service's decision to not consent to any leasing until a major amendment to their Forest Plan addressing reverting minerals is completed. However, they acknowledge that the environmental impacts of existing wells on reverting minerals is adequately documented to allow for continued surface occupancy by the affected wells until their environmental analysis is completed. Accordingly, the attached CRA applies only to the minimum acreage allowable under State spacing requirements for your particular well (i.e. 20 acres). We wish to emphasize that this agreement applies to the operation and maintenance of this well only and does not authorize any new activity.

The new proposed CRA also contains a number of terms and conditions very similar to those found in Federal oil and gas leases. Most notable are conditions that require the payment of a minimum royalty and compliance with other royalty management provisions (Article II), the right of the Federal government to require bonding under Federal bonding regulations if necessary to protect the public interest (Article III), protection of the CRA acreage from drainage (Article IV), and inspection and audit rights (Article VI).

Another important change in the requirement that you must obtain a Special Use Permit (SUP) from the Forest Service as a condition of an approved CRA (Article VII). The Forest Service will contact you directly regarding specific terms and procedures for finalizing the SUP. This CRA is not valid without authorization to occupy the surface via the SUP and vice versa.

This proposal represents an option that allows you to continue ownership of and production from your well. The only other alternative available under current Federal mineral law is to subject the acreage to the competitive leasing process when consent to do so is received from the Forest Service. If

a third party obtains the right to produce the property under a Federal lease, they would not acquire any right, title, or interest in the improvements you presently have on the land. However, you would have to acquire the right to produce your well from the new Federal lessee by some form of mutual agreement. After the reversion date, continued production of the involved well without the authorization of a Federal lease or a CRA would be considered a trespass and theft of Federal minerals.

If you decide to exercise the CRA option, sign the enclosed agreement and return to this office along with the documents requested in Article III; that is, evidence that the well is registered and properly bonded with the Ohio Department of Natural Resources and a well completion report. Upon receipt of this material, we will review it for completeness, issue final approval, and notify the Forest Supervisor's Office in Bedford, Indiana of the approval so that the SUP may be authorized.

We appreciate your patience in this matter. If you have any questions, please contact Tim Abing at (414) 297-4438 or Ken FitzPatrick at (703) 461-1341.

Sincerely,

David R Stanton

For Stuart F. Carlson
Deputy State Director,
Mineral Resources

Enclosure

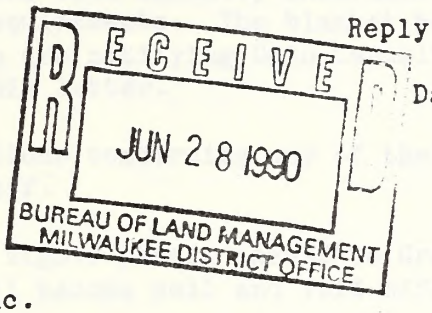
cc: Ohio Congressman McKuen
Tom Tugend, Ohio DNR, Division of Oil and Gas
Forest Supervisor, Wayne-Hoosier N.F.
District Ranger, Wayne N.F.
DM, Milwaukee DO
Tim Abing, MDO

United States Department of Agriculture | Forest Service | Wayne-Hoosier National Forest | 811 Constitution Avenue Bedford, IN 47421 812-275-5987

Caring for the Land and Serving People

Reply to: 2820

Date: June 21, 1990



Mr. Carl Heinrich
Greenbrier Energy, Inc.
Box 305
Reno, OH 45773

Dear Carl:

The mineral rights revert to the United States effective July 2, 1990, on a tract located on the Wayne National Forest in Township 4 North, Range 6 West, Section 14, Monroe County, Ohio. Greenbrier Energy, Inc. is currently operating a well on the Wallace Lease which is located on this tract. Since the mineral rights will be reverting to the United States, the operator has the option of applying for a Compensatory Royalty Agreement (CRA) or subjecting the acreage to the competitive leasing process. This procedure has been explained to you by the Bureau of Land Management (BLM).

Since Greenbrier Energy, Inc. has requested to continue operating this well, it is necessary for the Forest Service to authorize use of the surface by issuance of a special use permit (SUP). We have enclosed the original and two copies of this permit for your signature. Please execute all three copies and return them to this office prior to July 2. We will return a fully executed copy to you upon notification by BLM that the CRA has been issued.

The SUP authorizes only the surface area occupied by the well site, appurtenances, flow lines, and access roads. The CRA will authorize the continued operation of the well on acreage allowed under the State drilling permit. The SUP will authorize use of the access road and location of appurtenances both on and off the drilling unit. An additional permit will be required if the pipeline is located outside the drilling unit. The operator must contact the appropriate District Office to obtain the additional authorization.

The SUP that is enclosed is much like the Reserved Mineral Rights permits under which you are currently operating. Clauses 1 thru 15 are mandatory standard clauses that are required to appear in every SUP issued by the Forest Service. Clauses 16 and beyond are optional clauses which we deemed necessary to be included in this type of permit.

No land use fees will be assessed since the operator will be paying the estimated bonus bid plus royalties. Since Greenbrier Energy, Inc. maintains a blanket bond with the Ohio Casualty Insurance Company, there will be no additional bonding requirements. The blanket bond is sufficient to cover these operations. We are notifying Ohio Casualty Insurance Co. of these changes by copy of this letter.

If you have any questions concerning any of these procedures, please contact Linda Smith of my staff.

The Reserved Mineral Rights permit issued to Greenbrier Energy, Inc. on October 23, 1986, will become null and void effective July 1, 1990.

We are pleased that we can allow continued production of this well and want to thank you for your cooperation in the use of National Forest Land.

Sincerely,

FRANCIS J. VOYTAS
Forest Supervisor

Enclosure

cc: Athens
Marietta
BLM - Attn: Tim Abing
RO-LWM (Craven, Jacks, Curtis)
Ohio Casualty Insurance Company
Binder

L.Smith:hw

USDA - Forest Service	a. Record no. (1-2)	b. Region (3-4)	c. Forest (5-6)
SPECIAL USE PERMIT	70	Eastern 09	Wayne-Hoosier 11
	d. District (7-8)	e.User No.(9-12)	f.Kind of Use (13-15)
Act of June 4, 1897			Oil & Gas Pipeline
This permit is revocable and nontransferable	01 Athens	4230	Related Facility 632
(Ref. FSM 2710)	g. State (16-17)	h. County (18-20)	i. Card no. (21)
	Ohio 39	Monroe 111	1

Permission is hereby granted to Greenbrier Energy, Incorporated of Box 305, Reno, OH 45773, hereinafter called the permittee, to use subject to the conditions set out below, the following described lands or improvements: A portion of Section 14, T4N R6W, ORS, for one (1) oil and/or gas well site and accompanying improvements. The area herein described is more particularly shown and described on a map labeled Exhibit A which is attached hereto and made a part hereof.

This permit covers 1.42 acres and/or 0.12 miles and is issued for the purpose of: Locating equipment for one (1) oil and gas well. Equipment authorized are well jack, tank battery, flowline, sump, dikes, and separator. Use of access road is also authorized. This permit does not authorize the production of oil and gas. Authorization for the production of oil and gas must be granted by the Department of Interior, Bureau of Land Management. Proof of this authorization must be furnished to the Forest Supervisor by the Bureau of Land Management in order for this permit to be valid.

1. PERMIT OCCUPANCY: Occupancy and use under this permit shall begin within 0* months, and shall be completed within 0* months from the date of the permit. This use shall be actually exercised at least -15- days each year, unless otherwise authorized in writing.
* Occupancy and use is in effect at this time.

2. LAND USE FEE: In consideration for this use, the permittee shall pay to the Forest Service, U.S. Department of Agriculture, the sum of _____ Dollars ($ _____) for the period from _____ 19 __ , to _____ 19 * , and thereafter annually on FEE WAIVED PER 36 CFR 251.57 (b) (4), _____ Dollars ($_____): Provided, however, Charges for this use may be made or readjusted whenever necessary to place the charges on a basis commensurate with the value of use authorized by this permit.

3. ADDITIONAL CONDITIONS: This permit is accepted subject to the conditions set forth herein, and to conditions 4 to 34 attached hereto and made a part of this permit.

4. ADVANCE APPROVAL: Reconstruction, or alteration of improvements; or revision of layout plans for this area must be approved in advance and in writing by the forest supervisor. Trees or shrubbery on the permitted area may be removed or destroyed only after the forest officer in charge has approved, and has marked or otherwise designated that which may be removed or destroyed. Timber cut or destroyed will be paid for by the permittee as follows: Merchantable timber at appraised value; young growth timber below merchantable size at current damage appraisal value; **provided** that the Forest Service reserves the right to dispose of the merchantable timber to others than the permittee at no stumpage cost to the permittee. Trees, shrubs, and other plants may be planted in such manner and in such places about the premises as may be approved by the forest officer in charge.

5. VALID CLAIMS: This permit is subject to all valid claims.

6. COMPLIANCE WITH REGULATIONS: The holder, in exercising the privileges granted by this permit, shall comply with the regulations of the Department of Agriculture and all Federal, State, county, and municipal laws, ordinances, or regulations which are applicable to the area or operations covered by this permit.

7. PREVENTION OF FOREST FIRES: The holder shall take all reasonable precautions to prevent and suppress forest fires. No material shall be disposed of by burning in open fires during the closed season established by law or regulation without a written permit from the forest officer in charge or his authorized agent.

8. DAMAGE OF PROPERTY: The holder shall exercise diligence in protecting from damage the land and property of the United States covered by and used in connection with this permit, and shall pay the United States for any damage resulting from negligence or from the violation of the terms of this permit or of any law or regulation applicable to the National Forests by the holder, or by any agents or employees of the holder acting within the scope of their agency or employment.

9. DAMAGE TO ROADS: The holder shall fully repair all damage, other than ordinary wear and tear, to national forest roads and trails caused by the holder in the exercise of the privilege granted by this permit.

10. MEMBER OF CONGRESS: No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this agreement or to any benefit that may arise herefrom unless it is made with a corporation for its general benefit.

11. REMOVAL OF IMPROVEMENTS: Upon abandonment, termination, revocation, or cancellation of this permit, the holder shall remove within a reasonable time all structures and improvements except those owned by the United States, and shall restore the site, unless otherwise agreed upon in writing or in this permit. If the holder fails to remove all such structures or improvements within a reasonable period, they shall become the property of the United States, but that will not relieve the holder of liability for the cost of their removal and restoration of the site.

12. NOT TRANSFERRABLE: This permit is not transferable. If the holder through voluntary sale or transfer, or through enforcement of contract, foreclosure, tax sale, or other valid legal proceeding shall cease to be the owner of the physical improvements other than those owned by the United States situated on the land described in this permit and is unable to furnish adequate proof of ability to redeem or otherwise reestablish title to said improvements, this permit shall be subject to cancellation. But if the person to whom title to said improvements shall have been transferred in either manner provided is qualified as a holder and is willing that his future occupancy of the premises shall be subject to such new conditions and stipulations as existing or prospective circumstances may warrant, his continued occupancy of the premises may be authorized by permit to him if, in the opinion of the issuing officer or his successor, issuance of a permit is desirable and in the public interest.

13. ADDRESS CHANGE: In case of change of address, the holder shall immediately notify the forest supervisor.

14. SUBLEASING REQUIREMENTS: The temporary use and occupancy of the premises and improvements herein described may be sublet by the holder to third parties only with the prior written approval of the forest supervisor but the holder shall continue to be responsible for compliance with all conditions of this permit by persons to whom such premises may be sublet.

15. BREACH OF CONDITIONS: This permit may be terminated upon breach of any of the conditions herein or at the discretion of the regional forester or the Chief, Forest Service.

16. INDEMNIFICATION OF UNITED STATES: The holder shall indemnify the United States against any liability for damage to life or property arising from the occupancy or use of National Forest lands under this permit. (B8)

17. RISKS AND HAZARDS: Rising waters, high winds, falling limbs or trees, and other hazards are natural phenomena in the Forest that present risks which the holder assumes. The holder has responsibility of inspecting the site, lot, right-of-way, and immediate adjoining area for dangerous trees, hanging limbs, and other evidence of hazardous conditions and, after securing permission from the Forest Service, of removing such hazards. (B24)

18. AREA MAINTENANCE: The permitted area will be maintained to present a clean, neat, and orderly appearance. Trash, debris, unusable machinery, improvements, etc., will be disposed of currently. Building materials, firewood, etc., will be neatly stacked. (B31)

19. DISPUTES: Appeal of any provisions of this authorization or any requirements thereof shall be subject to the appeal regulations at 36 CFR 251, Subpart C (54 FR 3362, January 23, 1989), or revisions thereto.

20. REVEGETATION, SURFACE RESTORATION OF GROUND COVER: Holder shall be responsible for prevention and control of soil erosion and gullying on lands covered by this permit and adjacent thereto, resulting from operation, maintenance, and termination of the permitted use. Holder shall so maintain permitted improvements to avoid the accumulation of excessive heads of water and to avoid encroachment on streams. Holder shall revegetate or otherwise stabilize all ground where the soil has been exposed and shall maintain necessary preventive measures to supplement the vegetation. (D9)

21. PESTICIDE USE: Pesticides may not be used to control undesirable woody and herbaceous vegetation, aquatic plants, insects, rodents, trash fish, etc., without the prior written approval of the Forest Service. A request for approval of planned uses of pesticides will be submitted annually by the holder on the due date established by the authorized officer. The report will cover a 12-month period of planned use beginning 3 months after the reporting date. Information essential for review will be provided in the form specified. Exceptions to this schedule may be allowed, subject to emergency request and approval, only when unexpected outbreaks of pests require control measures which were not anticipated at the time an annual report was submitted.

Only those materials registered by the U. S. Environmental Protection Agency for the specific purpose planned will be considered for use on National Forest System lands. Label instructions will be strictly followed in the application of pesticides and disposal of excess materials and containers. (D23)

22. INDEFINITE TENURE: This Special Use Permit shall become effective simultaneously with the Compensatory Royalty Agreement and shall continue in full force and effect so long as the Compensatory Royalty Agreement is valid.

23. POLLUTION: The holder shall take reasonable precautions to prevent pollution of or deterioration of lands or waters which may result from the exercise of the privileges extended by this permit. In particular, the holder shall at all times comply with applicable local, State, and Federal requirements for pollution abatement. Failure of the holder to so comply may result in termination or suspension of this authorization. (D15)

24. WATER POLLUTION: No waste or byproduct shall be discharged into water if it contains any substance in concentrations which will result in harm to fish and wildlife, or to human water supplies.

Storage facilities for materials capable of causing water pollution, if accidentally discharged, shall be located so as to prevent any spillage into waters or channels leading into water, that would result in harm to fish and wildlife or t human water supplies. (D2)

25. DAMAGE AND FIRE: The holder agrees to take all necessary precautions to avoid damage to property and resources of the United States and will, independently and upon request of the Forest Service, prevent and suppress fires on or near lands occupied, or to be occupied, under this permit, and to pay and indemnify the United States for any and all injury loss, or damage, including but not limited to fire suppression costs, the United States may suffer as a result of claims, demands, losses, or judgments caused by the holder's use or occupancy to the maximum extent possible in accordance with State laws, ordinances, regulations, and rules. (D18)

26. AREA ACCESS: The holder agrees to permit the free and unrestricted access to and upon the premises at all times for all lawful and proper purposes not inconsistent with the intent of the permit or with the reasonable exercise and enjoyment by the holder of the privileges thereof. (X19)

27. SPARK ARRESTER AND ENGINE MUFFLERS: A muffler or spark arrester satisfactory to the authorized officer shall be maintained on the exhausts of all trucks and tractors or other internal combustion engines used in connection with this permit. (F11)

28. ELECTRICAL WIRING: All electrical equipment and facilities installed and operated shall conform to the National Electric Code and the equipment must have been approved by the American Insurance Association. (F6)

29. SLASH CLEANUP: The holder shall clean up slash and other flammable material for a distance of 50 feet from all buildings, lumber piles, pump jack, storage tanks, separators, or other structures covered by this permit. (F8)

30. PRIVATE ROAD, SECONDARY USE:

A. All reconstruction of the road shall be in accordance with plans, specifications, and written stipulations previously approved by the Forest Service.

B. The holder, in exercising the privileges granted by this authorization, shall comply with all applicable State and Federal laws, Orders, and rules and regulations, and shall comply with all State standards for public health and safety, environmental protection, operation, maintenance if in the opinion of the authorized officer those State standards are more stringent than Federal standards, and promulgation of State standards precede the date of this special-use authorization.

C. The holder shall cut no timber except as authorized by maintenance agreements.

D. The holder shall provide maintenance so that no damage occurs on adjacent National Forest land. The holder shall maintain lead-off drainage and water barriers as necessary to prevent erosion.

E. The United States may use the roads without cost for all purposes, including the removal of timber cut in maintenance of the road or other incidental use, deemed necessary or desirable in connection with the protection and administration of the lands or resources of the United States; provided that the road only will be used for commercial hauling purposes, only after payment by the United States of its pro rata share of road maintenance costs.

F. Only the Forest Service may extend rights and privileges for use of the road constructed on the premises to other nonfederal users on the condition that such users shall pay a fair share of the current replacement cost less depreciation of the road and any reconstruction costs necessary to accommodate their use.

G. The Forest Service retains the right to occupy and use the right-of-way. It also may issue other uses includin rights-of-way, on and through the permitted area provided that the occupancy and use does not unreasonably interfere with the rights granted herein.

H. The Forest Service shall have the right to cross and recross the premises and road at any place by any reasonable means and for any purpose in such manner as does not unreasonably interfere with use of the road.

I. The holder shall maintain the right-of-way clearing by means of chemicals only after the Forest Supervisor has given specific written approval. Application for such approval must be in writing and must specify the time, method, chemicals and the exact portion of the right-of-way to be chemically treated. (G1)

31. BONDS, PERFORMANCE: As a further guarantee of the faithful performance of the provisions of clauses 4, 7, 9, 11, 16, 17, 18, 21, 22, 24, 25, 26, 28, 29, 30, 31 of this permit, the holder shall deliver and maintain cash or surety bond, or other acceptable securities in the amount of Five Thousand and 00/100 dollars ($5,000) which will be held for the life of this permit. The holder agrees that the cash or surety bond, or other acceptable securities provided pursuant to the permit may, upon failure on his part to fulfill, all and singular, the requirements herein set forth or made a part thereof, be called upon or retained by the United States to be applied as far as may be to the satisfaction of his obligations assumed hereunder, without prejudice whatsoever to any other rights and remedies of the United States.

Should the bond or other instrument delivered under this permit become unsatisfactory to the Forest Service, the holder shall, within 30 days of demand, furnish a new bond or other acceptable securities which is both solvent and satisfactory to the Forest Service.

32. FOREST SERVICE REPRESENTATIVE: The District Ranger, Athens Ranger District, Telephone No. 614-373-9055, is responsible for administering this special-use authorization. The holder should contact the District Ranger regarding any questions concerning the occupancy and use authorized and the provisions of this authorization. (R9-X3)

33. IMPLIED PERMISSION: Nothing in this permit shall be construed to imply permission to build or maintain any structure not specifically named on the face of this permit, or approved by the authorized officer in the form of a new permit or permit amendment. (X3)

34. SUPERCEDED PERMIT: This permit supercedes a Reserved Mineral Rights Permit issued 10/23/86 to Greenbrier Energy Incorporated. (X18)

This permit will have no force and effect until the permittee has signified acceptance of its provisions and conditions by signing below and returning the duplicate copy to the Forest Supervisor.

U. S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE

Date

FRANCIS J. VOYTAS
Forest Supervisor

The undersigned authorized official of _____ has read the foregoing permit and agrees for and in behalf of said corporation that it accepts and will abide by its terms and conditions.

_____
Date

GREENBRIER ENERGY, INCORPORATED

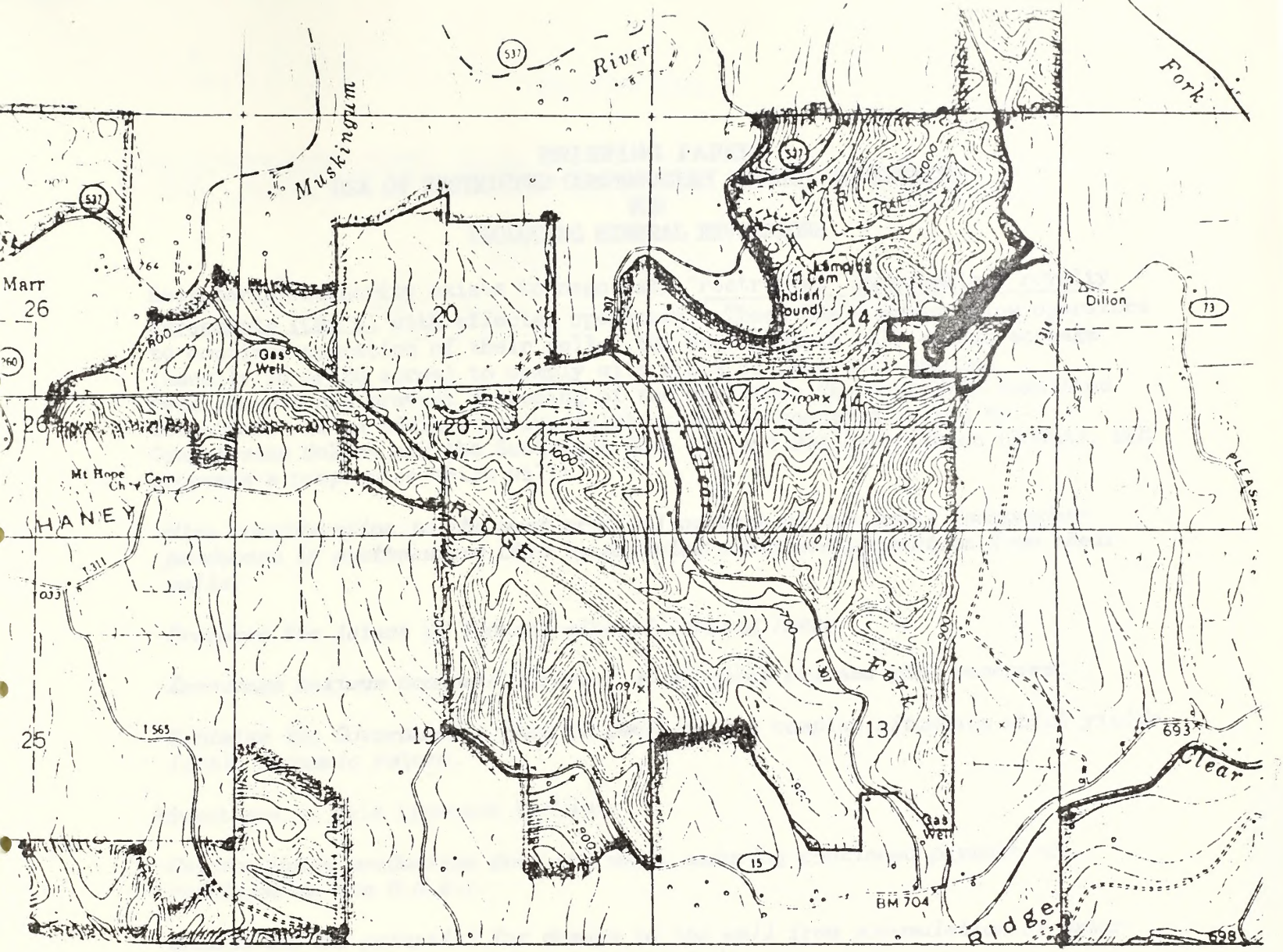
BY:_____

TITLE:_____

I, _____, certify that I am the Secretary of the corporation named as permittee herein; that _____ who signed said amendment on behalf of said corporation, was then _____ of said corporation; that said amendment was duly signed, for and in behalf of said corporation by authority of a resolution adopted by its Board of Directors on the _____ day of_____, 19___.

_____
Secretary

(SEAL)



2820 (M) LEASES AND PERMITS

EVERETT WALLACE 71-A-7

GREENBRIAR ENERGY, INC.

OIL & GAS PIPELINE -
RELATED FACILITY PERMIT

WAYNE NATIONAL FOREST
ATHENS RANGER DISTRICT (MUSKINGUM UNIT)
SCALE - 1" = 2000'
T4N R6W SECTION 14, PT. SE¼

N

NATIONAL FOREST LAND

DRILLING UNIT

WELL LOCATION

ACCESS ROAD

PIPELINE

LAMPING HOMESTEAD HIKING TRAIL

AREA UNDER PERMIT

BRIEFING PAPER
USE OF RESTRICTED COMPENSATORY ROYALTY AGREEMENTS
FOR
PRODUCING MINERAL REVERSIONS

Secretarial authority exists to negotiate "restricted" compensatory royalty agreements (CRA's) with affected operators. These CRA's would allow operators to continue operation of their wells, but would commit only enough acreage (usually 10 or 20 acres) to comply with State of Ohio well spacing requirements and prevent deepening of the well from the currently completed formation. As an administrative solution to the concerns raised by Congressman McEwen and the Southeast Ohio Oil and Gas Association (SOOGA), BLM proposes a compromise which will:

-Give consideration to the most critical concern of the small independent producers in southeastern Ohio by allowing continued production from their wells;

-Preserve the intent of Federal mineral leasing laws;

-Encourage maximum economic recovery of marginal oil and gas reserves;

-Minimize the Government's cost to administer a complex situation which yields little economic return.

Advantages to this approach include:

-Uninterrupted production from the well, assuring continued payment of royalties to the U.S.A.;

-Eliminates the potential for damage to the well from accumulation of water and sediment during extended shut-in periods;

-No need to resolve the trespass or abandoned well problems which usually accompany the competitive leasing of reverting mineral rights;

-In return for not leasing the acreage containing the well, operators would pay a pre-determined bonus bid, assuring the Goverment a bonus payment comparable for the area;

-Improved working relationships with local operators by acknowledging their concerns in this matter;

-The operator would be required to post bond coverage for any potential liabilities associated with the well which is not guaranteed by competitive leasing;

-BLM expense to administer CRA's is estimated to be up to eight times less than that incurred by competitive leasing.

It must be emphasized that this approach can only be taken when the involved well is producing at such a low volume that the costs associated with competitive leasing far exceed the benefits that may be derived. The Eastern States mineral staff will conduct an economic evaluation of affected wells on a case by case basis to determine whether use of a CRA is justified.

DECISION MEMO

SURFACE MANAGEMENT AGENCY ISSUANCE OF SPECIAL USE PERMIT FOR SURFACE OCCUPANCY OF USDI - BUREAU OF LAND MANAGEMENT AUTHORIZED AND OIL AND GAS PRODUCTION.

WAYNE NATIONAL FOREST

ATHENS, HOCKING, PERRY, MORGAN, GALLIA, JACKSON, LAWRENCE, SCIOTO, NOBLE, MONROE AND WASHINGTON COUNTIES, OHIO

The USDI - Bureau of Land Management (BLM) has decided to issue Compensatory Royalty Agreements (CRA) to certain producers of Federal owned oil and/or gas underlying the Wayne National Forest. These CRA's must be accompanied by a special use permit issued by the USDA - Forest Service for continued occupancy of the surface.

Proposed Federal Action - To provide a special use permit for the continued occupation of National Forest land for the duration of production of Federal owned oil and/or gas.

The United States has acquired numerous tracts of land in Ohio as a part of the Wayne National Forest. In many cases, the landowners reserved their oil and/or gas rights for a set period of time, and during that time period have leased out the production of that oil and/or gas to an independent producer. Upon expiration of the oil and/or gas reservation, the ownership of these reverts to the United States. The issuance of the CRA by BLM will allow for the continued production now of the Federal owned oil and/or gas with royalty payments being made to the United States. The issuance of the special use permit by the Forest Service will authorize the continued occupation and use of the Federal owned surface, previously occupied under the rights of the oil and/or gas reservation and a reserved mineral rights special use permit. A total of 22 Compensatory Royalty Agreements will probably be issued during 1990, 1991 and 1992.

Scoping and Public Involvement - The Forest Service has discussed the issuance of the special use permit in conjunction with the issuance of the CRA with many publics. Contacts have been with the Southeastern Ohio Oil & Gas Association, Quaker State Oil, Mitchell Energy, Congressmen Bob McEwen (R) and Douglas Applegate (D), the Office of Congressman Clarence Miller (R) and various County Commissioners within the Wayne National Forest.

Reasons for Categorical Exclusion - The issuance of the special use permit is simply the authorization of a continued legal use of Federal owned surface for an on-going mineral activity of limited size and no additional disturbance to the surface.

The special use permit will authorize only that occupancy or use in place at the time of issuance. No additional occupancy, use, or disturbance will be permitted. This action will not cause any change in effects on the environment.

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BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

I

It is my decision to implement this action as proposed. The reasons for my decision are:

1) It will help meet objectives for minerals management stated in the Forest Service Mission and the Wayne Forest Plan.
2) No direct impacts to the physical or biological environment will occur.
3) There is no justification for denial of issuance prompted by the Forest Land and Resource Management Plan.
4) It will allow for the continued production of a needed resource and royalty payments to the United States.

Interm Directive No. 2 to FSH 1909.15 dated February 28, 1989 provides direction on compliance with the National Environmental Policy Act; Revised Policy and Procedures. Section 26.2 of the Interim Directive indicates that this action falls into one of the categories of actions which may be excluded from documentation in an environmental assessment or environmental impact statement. Specifically, this action falls into the category: "Mineral and energy activities of limited size, duration and degree of disturbance..."

Analysis of this proposal reveals that there are no extraordinary circumstances which might cause the action to have significant effects on the human environment. Therefore, this action is categorically excluded.

The Bureau of Land Management will not begin to issue the Compensatory Royalty Agreement until 7 days after the date of publication in local newspapers.

This decision is subject to appeal in accordance with 36 CFR Part 217. Notice of appeal must be submitted in writing within 45 days of the date of publication of this decision both to the Reviewing Officer who is: Regional Forester, Region Nine, 310 West Wisconsin Avenue, Room 500, Milwaukee, Wisconsin 53203 and to the Deciding Officer: Forest Supervisor, Wayne-Hoosier National Forest, 811 Constitution Avenue, Bedford, Indiana 47421.

Question regarding this decision may be directed to: Forest Supervisor, Wayne-Hoosier National Forest, 811 Constitution Avenue, Bedford, Indiana 47421.

Christine A. Rose Deputy Forest Supervisor

for FRANCIS J. VOYTAS
Forest Supervisor
Wayne-Hoosier NF

May 11, 1990
Date

GOVERNMENTAL AFFAIRS COMMITTEE
FEDERAL AFFAIRS SUBCOMMITTEE
Dan Thompson, Chairman
c/o Carlton Oil Corporation
102 Carlton Drive, Newport, OH 45768
(614) 473-2629 FAX (614) 473-2294

April 27, 1990

To Association Members:

Is relief in sight concerning the federal lease reversion issue? It sounds good and perhaps this time it will happen. However, as we have found over the past two years, when dealing with the Wayne National Forest through the Bedford or Athens offices, we often cannot believe everything we're told.

This time, though, we had Congressman Bob McEwen in our corner. It was the Congressman's idea to hold a meeting at Nelsonville, following the Ohio Forestry Assoc. meeting, with Mr. Voytas. It was also Mr. McEwen's influence that resulted in Forest Supervisor Francis Voytas making the committments which are detailed within this letter. Congressman McEwen deserves a great deal of support from Southeastern Ohio for his work on this issue.

Following is a summary of the committments made by Francis Voytas, compiled from notes taken by those attending the meeting.

1) Mr. Voytas will approve the compensatory royalty agreement and he will do this very quickly. The agreement will include only the well acreage as platted with the State, and the stipulations should be similar to those in the compensatory royalty agreement dated February 2, 1990. Mr. Voytas did not have a copy of the agreement at the meeting, however, he was to mail a draft copy to SOOGA as soon as he returned to Bedford. At this writing I have not seen the draft copy.

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MAY 2 - 1990
BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

P.O. BOX [illegible], RENO, OHIO 45773 TELEPHONE (614) 373-6337

2) There will be operating permits for operations of these wells, similar to what we now have on reverting leases. A copy of this, too, should be forthcoming. If storage facilities, pipelines, or other equipment is on the present lease, but not on the acreage covered under the compensatory agreement it will be covered under the operating permit. I have not seen a copy of this operating permit, either.

3) New oil and gas leasing will take place and Mr. Voytas suggests a sale could be held in one year; April 1991. If a reverting lease owner wants his acreage put up, even though it will not revert for some years, he can request that the acreage be put up as a future interest lease. In this way an operator will not have to wait until reversion to determine whether or not he can continue to operate the lease. This will also include the remaining acreage surrounding acreage covered by a compensatory agreement.

4) Mitchell Energy acreage should be made available for lease sale as early as September or December of this year.

5) Mr. Voytas advises that the concern and reason for the cancellation of the April 11 lease sale and approval of the February 2 compensatory agreement was due to the 6.2 area under the Wayne 10 year plan. He expressed that a sale or agreement for acreage within the 6.2 area would most probably result in an appeal or a stay of action. The study to be done will cover the area looked at as 6.2 and the plan amendment would only be to remove or make a new designation of such area. Mr. Voytas indicated that the Forest Service had made a mistake in placing the 6.2 area for the 10 year plan.

Mr. Voytas said that local area representation would be included in the 6.2 area study and would have a voice in any decision to amend the plan.

6) Mr. Voytas said the Wayne National Forest and his administration are committed to the leasing and development of oil, gas and other minerals and that he would work with Southeastern Ohio to do so.

7) Mr. Voytas said that the Wayne National Forest and his administration were committed to a good working relationship between the Forest Service and the oil and gas industry. Mr. Voytas said he would start as soon as possible in establishing this relationship from the top of his administration down. He expressed that he would like to see the same harmony as the Activity Review Team described in FSM 2830 in October 19, 1987.

8) Mr. Voytas said that to omit news releases and legal notices from the Marietta Times and Monroe County newspapers, as mentioned in his letter of February 9, 1990, was an unintentional mistake. All legal notices and news release will appear in the Marietta Times and Monroe County newspapers beginning immediately.

Again, I feel we owe Congressman McEwen a great deal of thanks for his efforts on this issue. If the commitments made by Mr. Voytas are followed through, there may not be a need for H.R. 2501, introduced by Mr. McEwen.

We should also thank Congressman Clarance Miller whose legislative aide from Lancaster, Mr. John Smith, was in attendance at this meeting.

I have enclosed a copy of a presentation which was made by Southeastern Ohio Oil & Gas Association at the meeting reported herein.

Sincerely,

Dan Thompson
Federal Affairs
Subcommittee Chairman

DT/lb
enc:

The following presentation was made by SOOGA's Federal Affairs Committee at a meeting regarding reverting lease and future lease sales, held April 23, 1990 in Nelsonville, OH. Attending were Congressman Bob McEwen, Francis J. Voytas and Rhea Barker among others.

COPY

Oil and gas has been produced in Southeastern Ohio for over 130 years. As long as 170 years ago, in 1819, oil was discovered within 20 miles of the Marietta Unit of the Wayne National Forest . However, at the time the significance of the discovery was not realized. 40 years later the Drake well was drilled in Pennsylvania and production of oil and gas in southeastern Ohio followed soon thereafter. By comparison the Wayne is a newcomer to Southeastern Ohio. The first tract was purchased in the mid 1930s and the Wayne was officially established on October 1, 1951. [1]

Oil and gas are a vital part of the cultural resources of Southeastern Ohio and the Forest Service is required by law, regulation and presidential executive order to protect and enhance the same. The oil and gas industry also plays a vital part in the economics of communities dependent on the Wayne National Forest. [2] A mission of the Forest Service is to encourage, facilitate and administer the orderly exploration, development and production of mineral resources to help meet the present and future need of the nation.[3]

Since the 1930s the U.S. Forest Service has been, and is purchasing tracts of land within the boundaries of the Wayne. In many cases, especially during the early days of acquisition, landowners were hesitant to sell mineral rights. With oil and gas being actively developed in the area, those rights represented a potential continuing income from royalty. It was not uncommon for an oil and gas producer to actually own the land on which wells might be drilled, however, ownership of the surface was not as of much interest as ownership of the mineral rights. Therefore, selling the surface, while reserving the mineral rights for a specified number of years, made the offer of government purchase more attractive to the landowner. The Forest Service used this method to purchase many tracts as this was often the only way a landowner would be willing to sell.

[1] Journal of Forestry, Volume 80, No. 7, July 1982

[2] Draft Environmental Impact Statement, 1986, pages 3-28

[3] Draft Resources Planning Act, 1990, page 52

Following these government purchases of surface with mineral reservations, producers were led to believe that upon reversion of the mineral rights after the specified number of years, the royalty payments would simply revert from the previous owner to the government. Wells producing oil and gas would continue to be operated and the lease on such mineral rights would continue to be held by the producer of such wells. This belief was based on information provided by the Forest Service. Such belief was also a basis in continued development and production of oil and gas on tracts of ground within the Wayne boundaries. During early 1987, however, the Bureau of Land Management dropped a bombshell which has a devastating impact on the oil and gas industry in Southeastern Ohio. The BLM stated that as minerals rights reverted to the government under these tracts, the lease would be auctioned to the highest bidder; which contradicts everything the Forest Service has been suggesting for several years. According to the BLM the operator of a well on a reverting lease would be responsible to negotiate with the successful bidder concerning the sale of equipment on such well, or would have to remove the equipment.

The Southeastern Ohio Oil and Gas Association opposes this action by the BLM and upon learning of such began efforts immediately to protect the investments made in these leases by the current operators.

A Forest Service Activity Review Team visited the Wayne on July 15, 1987 to review reserved and outstanding mineral rights. The activity review results, FSM 2830, dated October 19, 1987 were signed by Floyd Marita, Regional Forester. The review suggested on pages 3 and 4 that the Forest Supervisor will recommend to BLM that the existing mineral rights operator be given priority status in continuing as existing operator upon reversion of mineral rights. It also suggests that future Marietta Unit land acquisitions on which mineral right are reserved by the seller for a period of years, should be structured so production rights can be extended beyond the expiration date of the reversion.[4]

[4]FSM 2830, dated October 19, 1987

Despite these recommendations communications between Southeastern Ohio Oil and Gas Association and the BLM yielded no relief for the existing operator. During the following two years a letter of denial was received from Curtis Jones of the BLM, there were lease sale delays and unending bureaucratic delays in answering correspondences.

In February 1989 the Wayne Marietta Unit was visited by Tim Abing, Petroleum Engineer, BLM Milwaukee, WI office and Patricia Leadwell, BLM Alexandria, VA office. They also suggested it was mutually in the best interest of the federal government, community and operator that the current operator would remain as operator after reversion of mineral rights. [5]

On May 29, 1989 the Honorable Bob McEwen, Representative from the State of Ohio, introduced H.R. 2501 into the House of Representatives, 101st Congress. This bill asks that the present operator of a lease on which mineral rights revert to the federal government continue to operate the leases upon reversion, thereafter making payment of royalty to the government.

Seeking a settlement in lieu of H.R. 2501, the BLM began drafting a compensatory royalty agreement allowing the current operator of such leases to continue to operate the lease upon reversion. On February 2, 1990, one operator in southeastern Ohio received a proposed compensatory royalty agreement concerning one of his leases. The agreement requested a payment of $3.00 per acre and standard royalty payment of 12.5% be made to the government. It also included other stipulations. The agreement was reviewed by other members of Southeastern Ohio Oil and Gas Association and was considered an acceptable solution to the reverting minerals situation. The operator who had received the agreement from the government thus complied with the requirements as outlined in the accompanying letter from Mr. Kenneth Fitzpatrick, dated February 2, 1990. The operator's cancelled check has been cashed and returned, however, the signed compensatory royalty agreement has not been returned.

[5]Memorandum to Assistant District Manager - Fluid minerals, Milwaukee, WI, dated May 27, 1989

Early in 1989 Mr. Voytas began making press releases that a lease sale of acreage in the Wayne would take place. Releases referring to such sale were made regularly, I am aware of those dated February 23, July 11 and August 31; there may have been others. Each release told that the Forest Service was compiling acreage to be included, or that some other process was taking place to prepare for the sale, but was not quite completed. It seems the studies and information needed were endless. In late January or early February of 1990 a date of April 11, 1990 was announced for the lease sale. The sale was to be held in Columbus, OH and would include some of the reverting rights acreage. This announcement provided hope to operators that at least some would get an opportunity to bid on their own leases, with a chance at lease to maintain control of that investment. That hope was put on hold , however, during the first few days of February.

Mr. Barker, District Ranger, Wayne National Forest, Athens, OH, was made aware of the BLM offered compensatory royalty agreement during the first of February. Mr. Voytas was also made aware of that situation, and a decision was quickly made that no leases would be made within the Wayne. The BLM takes the position that if the Forest Service will not agree to lease, the compensatory royalty agreement cannot be offered. Suddenly all progress in settling this issue ground to a halt.

Southeastern Ohio Oil and Gas Association is amazed by the delays encountered at every hint of progress toward a settlement of this situation. Members of SOOGA's Governmental Affairs Committee requested a meeting at the Forest Service's Bedford, IN office and attended that meeting on February 26, 1990. Presented in that meeting were comments that the percentage of acreage cited under the present Wayne 10 year plan were only 7%, but that percentage would increase. We were informed that due to this, an environmental impact study (EIS) needed to be done, and that the Wayne plan may need amended. We were told that the Bedford office would give notice on the compensatory royalty agreement within 2 weeks.

On March 10, 1990 we received official notice from BLM that the April 11 lease sale had been cancelled. The only reason given by the BLM was that consent to lease could not be obtained from the U.S. Forest Service. Since that time we have received only a letter dated April 9, 1990 from Mr. Voytas which contained information that the Forest Service has assigned a team to "revisit" and consider more closely areas of oil and gas. In phone conversations with other Forest Service and BLM personnel we have obtained information that no decision has been made as to the kind of study to be done, nor the time frame of such. We have also been informed that a compensatory royalty agreement, containing more stipulations and a special use permit are being considered. As we see it, these are just further bureaucratic delay tactics on the part of Mr. Voytas and his administration.

Within the Record of Decision, Final Environmental Impact Statement for the Wayne National Forest , which was signed by Floyd J. Marita on January 4, 1988, the statement is made on page 4 :

"The environmental consequences of the forest plan and the alternatives to it have been studied thoroughly."[6]

Page B3, Table B-1 of the Final Environmental Impact Statement for Wayne National Forest shows that the planning team and Mr. Voytas were aware of the percentage of acreage owned and controlled as it concerned reverting minerals rights, at the time of planning, through the 10 year span covered by the plan, and through the year 2005.

Throughout all aspects of the Wayne 10 year plan; the Highlights, dated 1987, the Draft of Environmental Impact and Resource Management, dated January 1987, the Record of Decision, dated January 1988, the Resources Planning Act of 1990; there are numerous statements made that oil and gas leasing will take place in the Wayne. Advisory teams from the BLM, the Forest Service and the Wayne 10 year Planning Committee have all recommended that the present operator continue to operate on reverting leases. All have stated that this solution is in the best interest off the community economics situation, the government's royalty return for least dollars spent, and the interest of the operator in recovering a return on investment.

[6]Record of Decision, Final Environmental Impact Statement, Wayne National Forest, January 4, 1988, page 4

There is no further need for study!
Again - delay tactics!

The compensatory royalty agreement, dated February 2, 1990 is just and is a fair settlement to a bad situation for all. Wells drilled on reverting leases are covered by protective stipulations within the special use permit which were obtained at the time of drilling and are already in effect. The compensatory royalty agreement also has regulation, and the Wayne 10 year plan adequately protects all aspects of the environment.

The Southeastern Ohio Oil and Gas Association requests that Mr. Voytas, the forest Supervisor of Wayne-Hoosier National Forest take the following action immediately.

1. Stop the deadly delay tactics of his administration. These tactics place a cumbersome burden on the culture and economic well-being of Southeastern Ohio.

2. Notify the BLM that the compensatory royalty agreement, dated February 2, 1990, be allowed for all leases that today have producing wells, further that the agreement be accepted in the form as submitted on February 2, 1990.

3. The Wayne National Forest stop purchasing land with severed mineral rights, unless there is a reasonable clause of extension for production of minerals at the date of revision.

4. The present Wayne 10 year plan continue in its present form with no amendments. This form was written by the government, elected to represent the people.

5. Mr. Voytas and his administration put forth an effort to establish a working relationship with the citizens, community and industry as described in the Forest Team Report of October 19, 1987, prior to Mr. Barker's arrival.

6. We request these actions put taken within 2 weeks.

I would like to let Mr. Voytas, and all of you know that the oil and gas industry and the citizens of Southeastern Ohio are just as concerned about the condition of the environment as yourself or any environmental group in the U.S.. We live in Southeastern Ohio by choice! Perhaps you should visit outside the Athens office to see where we live. The oil and gas industry has worked side by side with the Forest Service for many years prior to the arrival of Mr. Barker and Mr. Voytas. We have done so in harmony, managing the forest for the benfit of ALL. I suggest to you that it can be that way again.

Form 1541-3
(July 1965)
(formerly 4-1599 a)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

CONFIRMATION/REPORT OF TELEPHONE CONVERSATION

TO	Name: Tim Abing	FROM	Name: Dick Gretorex
	Office:		Office: Wayne Hoosier N.F.
	Location:		Location: Bedford, IN
	Telephone Number:		Telephone Number:

Purpose of Call:

To discuss Article IX of BLM's proposed Comp. Royalty Agreement which deals with assignments/transfers of interest.

Explanatory Remarks:

FS felt the Article as written did not provide adequate advance notification of transfers. Suggested wording be changed to include "advance" & "approval". Expressed concern that CRA/SUP would be transferred to a "bad" operator. I warned of restrictive of language that would interfere with private enterprise. I agreed to include "advance" in the Article.... The entire gist of Dick's comments were apprehensive in nature about the CRA/SUP proposal. Dick said the FS wanted even "tighter" control on this situation than they would have on Fed. leases. They expected to have their SUP ready within a week.

4-26-90
(Date)

Tim Abing
(Signature)

READING FILE

SOUTHEASTERN OHIO OIL & GAS ASSOCIATION
GOVERNMENTAL AFFAIRS COMMITTEE
FEDERAL AFFAIRS SUBCOMMITTEE
Dan Thompson, Chairman
102 Carlton Drive Newport, OH 45768
(614) 473-2629 FAX (614) 473-2294

May 14, 1990

Tim Abing
Bureau of Land Management
Milwaukee District Office
P.O. box 631
Milwaukee, Wisconsin 53201-0631

RE: Enclosed letter to Francis Voytas

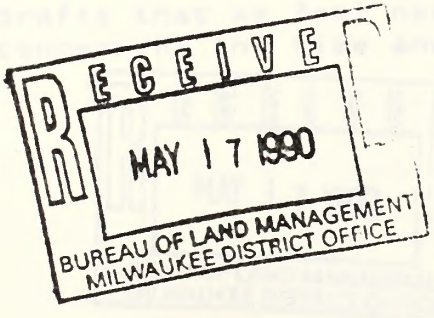
Dear Mr. Abing,

Enclosed is a copy of a letter to Mr. Voytas which requests a meeting concerning discussion of the draft documents mentioned therein. If and when Mr. Voytas makes arrangements for such a meeting, SOOGA extends an invitation to you (or a representative of yours) to attend such a meeting.

Sincerely,

Dan Thompson

Dan Thompson
Chairman



SOUTHEASTERN OHIO OIL & GAS ASSOCIATION

GOVERNMENTAL AFFAIRS COMMITTEE
FEDERAL AFFAIRS SUBCOMMITTEE
Dan Thompson, Chairman
c/o Carlton Oil Corporation
102 Carlton Drive, Newport, OH 45768
(614) 473-2629 FAX (614) 473-2294

May 14, 1990

Francis J. Voytas
Forest Supervisor
Wayne-Hoosier National Forest
811 Constitution Ave.
Bedford, IN 47421

Mr. Voytas,

Representatives of Southeastern Ohio Oil & Gas Association have reviewed copies of the following draft documents provided by your office: Compensatory Royalty Agreement, Special Use Permit, and Coordination Requirements and Stipulations for Oil and Gas Activities.

Page 4 of the Compensatory Royalty Agreement contradicts page 1 of that agreement. The Special Use Permit draft is an extreme change from the current special use permits which cover wells drilled on reverting leases. Implementation of the Stipulations for Oil and Gas Activities will cause such a cumbersome burden that we feel further development or operation of wells on these properties will be economically impossible.

Members of SOOGA which attended the Nelsonville, Ohio meeting of April 23, 1990 feel that these drafts are a complete change of direction from the statements you made during that meeting. We request that you, Mark Theisen and other members of your administration come to the Marietta area for a meeting in which we can discuss parts of these drafts that we feel need changed. You should contact me concerning the time and place of such a meeting.

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BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

Sincerely,

Dan Thompson

P. O. BOX 4013, MARIETTA, OHIO 45750

TELEPHONE (614) 373-6337

4/13/90

To: Chris Hanson & Tim Abing
These are part of Mtg. Notes (Natural Resources Group - 4/9/90)

Reversions of Producing Oil/Gas Wells to U.S.A. Mineral Ownership

(Wayne National Forest)

The NR-Group met to discuss this subject and to develop policy on how to best balance the needs of the private operator with those of the public land managers. Attendees in addition to the NR-Group included: Mike Danaher and Conrado Alamario from OGC; Chris Hanson and Tim Abing from BLM; Jack Craven and Jack Jacks from LWM; and Chuck Myers from PPB.

Discussions concluded with the following consensus reached: The Forest should continue to implement their Forest Plan, the stated intent of which is to have existing operations continue after reversion, unless there is cause for them not to. The Forest Supervisor needs to consider each reversion separately and specifically, and make a Forest Plan consistency/compatibility determination.

If the determination is positive, then the Forest Supervisor should issue a special use permit to authorize the surface occupancy. BLM in turn will execute a Compensatory Royalty Agreement for only the 20 acres around the well, to ensure proper collection of Federal monies. The Compensatory Royalty Agreement and the Special Use Permit will be so worded that they are linked together. In other words, neither authorization will be valid without the other.

NEPA requirements were discussed and it was concluded that the extension of a right to continue an existing, compatible land use, fell into the "Categorical Exclusion" framework of administrative actions even though the authorities allowing such surface uses have changed. Chuck Myers from PPB agreed to provide more details on how the Forest should complete the administrative record.

The final details of the Compensatory Royalty Agreement, Special Use Permit, and NEPA will be coordinated between BLM, LWM, PPB, and the Forest. Jack Jacks from LWM will take the lead for the R.O.

The group considered the option of not authorizing any production after reversion, pending completion of the proposed Forest Plan and E.I.S. revision and resolution of the Ohio Environmental Council Appeal. This option was not selected because it would create a 'trespass' condition and action would have to be taken. Such actions would require considerable time and effort for OGC, District, Forest, and R.O. personnel to force removal of facilities; it would result in temporary environmental disturbance to remove and rehab sites and roads; and it would likely adversely affect our working relationships with previous mineral owners which in turn could affect other operations elsewhere on the Forest. Also, stopping operations on reverting minerals would be inconsistent with the intent of the Forest Plan as stated in the Record of Decision (see ROD, pg. 23).

Therefore, it was concluded that production could be continued where it was compatible/consistent with the Forest Plan. During the current Forest Plan and E.I.S. revision, this subject of reversions will be considered further. A decision will then be made on how to best address reversions, i.e. Federal Leases; Comproyalty Agreement and Special Use Permits; or modifying regulations to allow for Future Interest Leases. Some combination of all these appears to have merit.

Memorandum

To: Developed Mineral Reversion Case File

From: Petroleum Engineer, Milwaukee District Office

Subject: Trip Report, BLM\Forest Service\SOOGA Meeting, February 26, 1990, Bedford, Indiana

On February 26, 1990, Jack Craven (Chief of Minerals & Geology Section, FS Regional Office) and I traveled to the Wayne-Hoosier Forest Supervisor's Office in Bedford, Indiana, to partake in a meeting about leasing and mineral reversions in the Wayne National Forest. Other participants in the meeting were the Forest Supervisor and various support staff as well as several members of the Southeast Ohio Oil and Gas Association (SOOGA).

SOOGA was opposed to the FS decision to not lease any additional acreage in the Wayne N.F. until a major amendment to the Forest EIS was completed. Among other things they feared that a delay in leasing would prevent any action from being taken on mineral reversion that had producing wells and the wells would have to be shut-in until the EIS amendment was completed.

At this point, I explained how the compensatory royalty procedure could be used even if a lease sale were not to be immediately held. I explained that the agreement would stictly be limited to the acreage committed to the existing well by State spacing. The surface disturbance associated with the well was a preexisting condition and should have already been adequately addressed by the present Forest Plan.

The Forest Supervisor pledged to further investigate the proposal and assured SOOGA that it also was the desire of the Forest Service to facilitate the continued production from the affected wells if it were possible within the regulatory framework of BLM and the FS.

Timothy F. Akins

United States Department of the Interior

BUREAU OF LAND MANAGEMENT
EASTERN STATES OFFICE
350 SOUTH PICKETT STREET
ALEXANDRIA, VIRGINIA 22304

IN REPLY REFER TO:
3100(970)SFC

JAN 10 1990

Memorandum

To: Assistant District Manager, Milwaukee

From: Deputy State Director, Mineral Resources

Subject: Ohio Oil and Gas Sale

As indicated to you by telephone today, the subject sale is scheduled for April 18, 1990. As such, it is incumbent that you immediately contact those operators whose current non-Federal leasehold interests have or will expire.

It is important that they apply promptly to the Eastern States Office (ESO) for the discussed "compensatory royalty agreement" so as to protect production from their low yield units on the future interest leaseholds. In the absence of such, we will post total parcel acreage on the competitive sale list.

This office stands ready to promptly process the documents subject to pending Forest Service consent and NEPA clearance. Please keep in touch.

Stuart F. Carlson

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JAN 10 1990
BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

BLM COMMITTEE
Dan Thompson, Chairman
c/o Carlton Oil Corporation, 102 Carlton Drive, Newport, OH
(614) 473-2629

RECEIVED
DEC 28 1989
BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

Tim Abing
BLM Milwaukee District Office
P.O. Box 631
Milwaukee, Wisconsin 53201-0631

Dear Tim,

This letter is a follow-up to our recent conversations. I have contacted the members of our committee and the following is a consensus of their opinions.

We are keeping an open mind to your proposed solution to the reverting mineral question and these comments are approaches we feel would be fair to all and maximize the long term benefits to the government and its citizens:

1. If our members would agree to go forward with the agreement you have drafted we feel that all wells on tracts where the versions will occor should be taken care of in the same way at one time - say within the next 6 months.

2. If the agreements are executed by the well owner and the government, all the excess acreage on tracts involved with the problem wells should be put up for a lease sale within the next 8-12 months where the current owner of the problem wells would request such a sale.

3. If such a sale as described in 2 above cannot be held in an expeditious manner, then in the alternative, the entire tract should be covered by your proposed agreement. There is considerable merit for this alternative solution in that a piecemeal subdivision of these various tracts would be avoided. If these tracts become subdivided and "gerrymandered" the administrative cost and burden to the United States will be increased and such subdivision could create impediments to future development. You may recall that a number of tracts in several recent sales received no bids primarily due to the lease geometry which was such that no lease operators or even speculative bidders felt they were worth even the minimum bid price.

   If this alternative can be adopted, we feel there is a consensus on some sort of payment schedule for the undeveloped acreage not associated with the original drilling unit associated with a problem well.

4. We feel that the acreage attributed to a problem well in your draft agreement in accordance with the original drilling unit should encompass all subsurface rights. This is because damage would most likely result to the original well by the drilling of another well on a 20 acre unit by another operator seeking to exploit the "deep rights" which he had acquired by lease sale. While some language can be drafted in the lease sale to supposedly prevent this damage situation, the problem is very real and cannot be easily solved, particularly with the naturally fractured and sensitive reservoirs commonly found on the Wayne.

5. There is considerable precedent for an allocation of rights based on a radius basis around existing wells. On a number of tracts with reverting mineral rights, there are provisions for extensions of vendor's rights where production continues up to and past the point of reversion. This is often applied to all acreage of the subject tract within a radius of 1320 feet. This concept could be applied to the problem wells and would be an economic and practical alternative to the sometimes peculiar shape of the shape of the original drilling plat which was hastily drafted to satisfy the peculiar spacing concepts of the Ohio Division of Oil and Gas which really doesn't recognize the development problems involved in operating in hilly terrain.

Upon checking with Congressman McEwen's office, we were informed that the proposed legislation did not die when Congress recessed. In fact, we understand that hearings may be held in the early part of 1990.

You can see that there are a number of points that merit additional discussion and work. We would greatly appreciate the opportunity to meet with you and Chris Hansen or any other interested personnel here in Ohio so that we might work towards an acceptable resolution for all parties.

If we could resolve all of the issues relative to all of the few problem wells, the whole situation for which we have sought a legislative solution would probably be a moot point and we all could go on to other more rewarding activities.

Your assistance in getting the discussion to this point is greatly appreciated, and we look forward to working with you and other BLM people to completely resolve the problem.

Sincerely,

Dan Thompson
BLM Committee Chairman

DT/lb
cc: BLM Committee Members
Congressman Bob McEwen

DEPARTMENT OF THE INTERIOR
Bureau of Land Management
Milwaukee District Office
310 West Wisconsin Avenue
P.O. Box 631
Milwaukee, Wisconsin 53201-0631

030:TA
3100

DEC 1 1989

Memorandum

To: State Director (910) (970) (971) (972)

From: Assistant District Manager for Fluid Minerals, Milwaukee

Subject: Application of "Restricted" Compensatory Royalty Agreements to Developed Mineral Reversions Within The Wayne National Forest

The Milwaukee District Office strongly recommends that the Eastern States Office negotiate "restricted" compensatory royalty agreements (CRA's) with operators of developed mineral reversions principally on the Wayne National Forest. This action should be taken in lieu of BLM's current approach of competitively leasing the affected mineral interest. We feel these agreements will serve the public interest by minimizing BLM's cost to administer these wells while allowing for the maximum economic recovery of the hydrocarbon resources.

While developing this recommendation, we have encountered two major misconceptions that have hindered resolution of this matter and are clarified herein. First, operators of developed mineral reversions have never had an opportunity to obtain a noncompetitive future interest lease prior to enactment of the Federal Onshore Oil and Gas Leasing Reform Act (FOOGLRA). Prior to FOOGLRA, if a mineral reversion contained a producing well, it automatically was classified as a Known Geologic Structure (KGS) and if it were to be leased, it had to be offered competitively. Therefore, the same dilemma for the affected operators existed before FOOGLRA and remained unchanged after its passage. Second, it is not mandatory that developed mineral reversions be offered for competitive leasing. Language in both the Acquired Lands Leasing Act of 1947[1] and FOOGLRA[2] suggest leasing to be a discretionary action, performed when such action is clearly in the public interest. Secretarial authority exists to implement other administrative alternatives to leasing when circumstances dictate[3]. We believe such

---

[1]30 U.S.C. 352 states that mineral deposits on acquired lands "may be leased by the Secretary".

[2]Section 5102 of the Federal Onshore Oil and Gas Leasing Reform Act of 1987 amends the Mineral Leasing Act of 1920 (30 U.S.C. 226(b)(1) to read, "All lands to be leased..."

[3]See 30 U.S.C.226(a), (g), and Notes of Decisions Nos. 5, 6 and 7.

Secretarial discretion is warranted because the circumstances surrounding developed mineral reversions are unique and not specifically addressed in any law or regulation currently available to the BLM. The Solicitor's Office cautioned that any that any alternatives should not give the perception that they are simply a means to circumvent the law and Congressional intent. A comprehensive documentation of the circumstances and the benefits to be derived from the use of a "restricted" CRA demonstrates that this approach is both defensible and justifiable.

Thus, given the legal authority to pursue an alternative to leasing, the task at hand is to provide exacting justification for the course of action. The basis for our justification and the main reason developed mineral reversions became an issue in the first place is economics. The wells that would benefit from a "restricted" CRA are producing at extremely low volumes that even the slightest extra expense will deprive the United States of the meager monetary returns received from these wells. We must decide how much effort and expense the Federal Government is willing to accept to collect an estimated $500 per well per year in royalties, with many wells generating much less.

The following analysis provides the "costs" of competitively leasing these reverting mineral interests versus the "benefits" of implementing the "restricted" CRA. The relative costs presented here should be gauged against the average annual royalties collected for each well plus prorated rental and bonuses:

Competitive Leasing Option

1. The Minerals Adjudication Section estimates that the average cost to hold a lease sale is $188,250. Assuming an average of 350 parcels per sale, it will cost BLM $537 per parcel to lease;

2. Typically, there is a lengthy delay from the date of reversion to the date a lease sale is actually held. During this time, the involved well must remain shut-in, depriving the Government of royalty income. Past cases of developed mineral reversions in southeastern Ohio have averaged five years between reversion and lease sale date. This translates to $2,500 in foregone royalty. It should be noted here that some wells may remain shut-in even after a Federal lease is issued. This occurs when the well owner is not the successful bidder on the lease and an agreement to allow the well to continue producing cannot be reached between the two private parties.

3. Many wells in southeastern Ohio react negatively to long shut-in periods. Interrupting the flow of hydrocarbons can cause a buildup of sediments or fluids in the wellbore that may either reduce or prevent the recovery of hydrocarbons once production is resumed. Because of the small volume of recoverable reserves and the low production rates, operators oftentimes find it uneconomical to perform the necessary "workover" of the well to restore previous production levels. Thus, an extended shut-in of these wells could cause premature abandonment, forever losing the chance to recover the remaining recoverable reserves. Assuming a ten year producing life after reversion, the Government would lose an average $5,000 in royalty income, the operator would lose his working interest profit, and the Nation would lose the beneficial use of a domestic resource.

4. Past cases have shown that operators either resist orders to cease production resulting in trespass proceedings or remove their surface equipment from the wellsite leaving an unplugged wellbore, which represents a potential threat to minerals, potable aquifers, and public health and safety. In such past instances, considerable legal, technical, and managerial workmonths were expended to resolve the resulting administrative problems. Three such trespass instances averaged total elapsed times in excess of nine years per case to achieve final resolution, with one case requiring prosecution by the Justice Department. Although it is difficult to determine the Government's administrative costs to resolve the problems that would be expected in future cases, a very conservative estimate would be $8,250 per case (assuming 2.5 workmonths of total effort @ $3,300/workmonth).

5. By completely ignoring the concerns of affected operators, the working relationship between local producers and the Forest Service/BLM, which has made substantial improvements over the past few years, will be significantly damaged. This is of particular concern to the Forest Service where cooperation with the local oil and gas producers operating on reserved mineral interest within the Wayne National Forest is important to effective surface management. While the dollar value of this "cost" cannot be directly determined, it may be the most significant impact of all.

Totaling these factors yields an estimated $10,000 to $14,000 in administrative costs to the Government to lease developed mineral reversions. Considering the overall effort that was expended on the few cases that have transpired to date, this is an extremely conservative estimate. In return for this expense, the Government would at best receive from $2 to $7 per acre in bonus monies and $5,000 in royalties (again assuming 10 years of remaining production). Subtracting the returns from the expenses yields a projected loss per case to the Government of $4,000 to $8,000. Over the next 10 years it is projected that operators of 40 oil and gas wells will be faced with the need to acquire some legal instrument that will allow for continued production from their wells. This could conservatively result in a "net" cost to the United States of $240,000 to administer these future reversions. Continuing a policy of competitively leasing the lands containing these wells will cost the United States taxpayers far more in many respects than could ever be recouped in bonus monies or production royalties.

"Restricted" CRA Option

1. There would be no interruption of production from the well, assuring continued payment of royalties to the Government, eliminate the potential for damage to the well through inactivity, and promote maximum economic recovery of in-place reserves.

2. Only a minimal amount of administrative expense (less than 0.5 workmonth) would be incurred by BLM in finalizing the actual agreement. There would be no trespass or abandoned well problems/liabilities to resolve.

3. The operator would be required to pay bonus money on acreage included in the drilling unit to reimburse the Government for not leasing the tract. This amount would be based on similar bonus monies received for like properties in the area.

4. The agreement would horizontally cover only the specific drilling unit of the involved well (typically 10 or 20 acres) and vertically limited to the depth the well is presently completed in. The BLM would competitively lease the remaining acreage in the drilling unit as well as 100 percent of the reverting acreage not committed to the drilling unit.

5. The operator will be required to provide adequate bond coverage as a condition of continued operation which would not be guaranteed if the tract were competitively leased to a party other than the operator.

6. Working relations with affected operators would not be impaired with the resulting ripple effect benefitting many other aspects of Federal land management in southeastern Ohio.

Summary

The bottom line is that use of a "restricted" CRA would yield the same monetary revenue as competitive leasing with greater socioeconomic returns at a fraction of the administrative cost. This approach could result in as much as an 8.5:1 cost savings to the Government. Restricted CRA's represent an equitable compromise for all involved parties by acknowledging concerns of the operators while still making the vast majority of reverting mineral acreage available for competitive leasing. Implementation of this proposal would be a demonstration that BLM can couple authority with innovation to efficiently and effectively manage mineral resources.

A suggested "restricted" CRA is attached for your review. Also attached is a copy of the March 27, 1989 staff report which provides additional background information on developed mineral reversions within the Wayne National Forest. We ask that you provide this office with a formal response to the recommendation contained in this memorandum so that we may brief affected operators and implement appropriate action as soon as possible.

Attachments

COMPENSATORY ROYALTY AGREEMENT
No._____

This Agreement make and entered into this _____ day of _____, 19___, by and between the United States of America, through the Secretary of the Interior, or his designated representative, hereinafter called "United States", and _____, hereinafter called "Operator".

WITNESSETH:

WHEREAS, through a mineral reversion effective (date), the United States has acquired a one hundred percent (100%) mineral interest in the lands described in Exhibit "A", attached to and made part hereof.

WHEREAS, Operator certifies that he/she is the owner of the (name of well) completed in the (provide formation name or depth to producing zone), and located (provide legal description) on a (10,20, or 40) acre drilling unit described in Exhibit "B", attached to and made part hereof.

WHEREAS, said well was drilled under the authority of a private lease issued after the date the United States acquired its future mineral interest in the subject lands but prior to the date of reversion, the term of the involved private lease will expire upon the date of vesting to the United States.

WHEREAS, due to legal complexities and low production volumes, the United States has determined that it would be in the public's interest to enter into a compensatory royalty agreement rather than to lease the involved acreage competitively. Said agreement shall cover the ___-acre drilling unit described in Exhibit "B" down to and including the formation in which the well is completed.

NOW, THEREFORE, in consideration of the said premises and covenants and Agreements hereinafter contained, and of the compensation to be paid the United States by the Operator, as hereinafter provided, it is expressly understood and agreed by and between the United States and the Operator, as follows:

ARTICLE I

Operator will pay the United States $_____, representing compensation for the estimated bonus the United States would have received on said ___ acres had the ____-acre tract been leased competitively. Beginning with the date of mineral reversion, Operator will pay to the United States a royalty of 12.5% of the gross proceeds attributable to the said ___-acre tract based on the market value at the well of oil and gas produced (saved or marketed), used, or lost on or off the premises from the well located on said unit.

ARTICLE II

For the purpose of computing the compensation payable to the United States pursuant to the terms of this Agreement, the market value shall be computed in accordance with Departmental regulation, Said payment shall be made quarterly on or before the last day of the calendar month following the production period on which such payment is based. Each payment shall be accompanied by the statement of oil and gas produced, saved and marketed during the period for which payment is made. All payments shall be made by check drawn to the order of the Minerals Management Service, P.O. Box 25165, Denver, Colorado 80225.

ARTICLE III

The operator hereby agrees to furnish the Milwaukee District Office with evidence of well ownership and/or registration with the appropriate state authority, bonding with the appropriate state authority, and a well completion record. If the well is not registered or permitted with the State, the operator agrees to comply with all necessary requirements to do so.

ARTICLE IV

During the life of this Agreement the United States will not issue any oil and gas leases covering the land described in Exhibit "B". Operator shall not deepen the involved well or drill any additional wells to deeper formations in said unit in the absence of an oil and gas lease issued by the United States.

ARTICLE V

This Agreement applies to and affects only the tract of land described in Exhibit "B" down to and including the _____ Formation and is not to be construed as affecting in any manner any right, title and interest owned or claimed by the parties hereto in and to any other land.

ARTICLE VI

This Agreement shall become effective _____ and shall continue in full force and effect so long as said unit remains in force and effect.

ARTICLE VII

Operations on said land described in Exhibit "B" will be conducted in compliance with the rules and regulations for the removal of minerals of lands owned by the United States. The United States will not acquire by this Agreement any right or authority to supervise or control the production or marketing of oil and gas from said tract, the full power of management, supervision and control of Operator's business remaining in Operator.

ARTICLE VIII

Should Operator fail to make any payment herein provided and remain in default for 30 days after receiving written demands therefore, the United States shall have the right and privilege to cancel and terminate this Agreement.

ARTICLE IX

This Agreement and all of its provisions shall be binding upon and extend to the heirs, administrators, executors, personal representatives, successors and assigns of the parties hereto.

ARTICLE X

It is also further agreed that no member of, or delegate to Congress, or Resident Commissioner, after his election or appointment, or either before or after he has qualified and during his continuance in office, and that no officer, agent or employee of the Department of the Interior shall be admitted to any share or part in this Agreement or derive any benefit that may arise therefrom, and the provisions of Section 3741 of the Revised Statutes of the United States, as amended (41 U.S.C. 22), and Sections 431, 432, and 433, Title 18, U.S. Code, relating to contracts, enter into and form a part of this agreement so far as the same may be applicable.

ARTICLE XI

Nondiscrimination: In connection with the performance or work under this agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, or Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference herein.

IN WITNESS thereof, Operator has caused these presents to be executed in its corporate name by its proper officials hereunto duly authorized; and the United States has caused these presents to be executed by its Secretary of the Interior or his designated representative, all on the day and year first above written.

BUREAU OF LAND MANAGEMENT
UNITED STATES DEPARTMENT OF THE INTERIOR

OPERATOR

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

SEP 14 1989

Honorable Bob McEwen
House of Representatives
Washington, D.C. 20515

Dear Bob:

Thank you for your letter of June 21, 1989, concerning Federal oil and gas future interest leasing procedures required for certain lands in the Wayne National Forest in Ohio. The U.S. Forest Service acquired the future mineral rights on behalf of the United States Government with reversion to occur at various dates within the next decade.

I asked the Bureau of Land Management (BLM) to prepare a report concerning the specific aspects of your concerns and that report is enclosed. It appears that the private lease owners, unfortunately, were not aware of the passage of the Reform Act and the significant changes mandated by this law in Federal future interest oil and gas leasing requirements. In accordance with the Reform Act, the subject lands now must first be offered competitively, prior to any of the lands being available for noncompetitive lease offer. The BLM Eastern States Office has met and worked with your office and the members of the Southeastern Ohio Oil and Gas Association concerning this matter. The special legislation, H.R. 2501, which you introduced will be addressed by the House Committee on Interior and Insular Affairs and the Senate Committee on Energy and Natural Resources to determine its compatibility with the intent of the Reform Act and whether further change to that Act would be in the public interest and benefit private leasehold producers on future interest lands such as those located in Monroe, Noble, and Washington Counties, Ohio.

If we can be of further assistance to you in the future, please let me know.

Sincerely,

MANUEL

Enclosure

RECEIVED
NOV 24 1989
BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

ESO 910

United States Department of the Interior

BUREAU OF LAND MANAGEMENT
WASHINGTON, D.C. 20240

TAKE PRIDE IN AMERICA

3100 (932.1)
IN REPLY REFER TO
(ES0-971-PL)

AUG 17 1989

RECEIVED
NOV 24 1989
BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

Memorandum

To: Secretary

Through: Deputy Assistant Secretary - Land and Minerals Management

/s/ James M. Hughes
AUG 24 1989

From: Director, Bureau of Land Management

Subject: Representative Bob McEwen's Request for Assistance in Reviewing Federal Future Interest Oil and Gas Leasing Procedures for Lands in Wayne National Forest in Ohio, and Support for Legislation, H.R. 2501, Introduced in May 1989

The Bureau of Land Management (BLM) Eastern States Office has reviewed the factors and background information concerning the issue raised in a letter received from Representative Bob McEwen on June 21, 1989. Representative McEwen has written on behalf of the Southeastern Ohio Oil and Gas Association (SOOGA) regarding Federal future interest oil and gas leasing procedures under the Federal Onshore Oil and Gas Leasing Reform Act of 1987. The Reform Act of 1987 requires oil and gas leasing through a competitive bidding process, including all future interest leasing, with a legislated minimum bonus bid of $2 per acre or fraction thereof. There are no exceptions. Future interest leases are available noncompetitively only if no bid minimum bonus bid is received at the competitive lease sale.

On April 17, 1987, the BLM Eastern States Office responded to a letter dated February 17, 1987, from Mr. Dan Thompson, Operations Manager of Carlton Oil Corporation, concerning lands in Monroe, Noble, and Washington Counties in Ohio, where private mineral interests will expire and subsequently vest to the United States Government. The Eastern States Office response (Attachment 1) outlined the regulatory requirements then in effect, prior to the passage of the Reform Act legislation, that pertained to future interest reversions and private leases. Mr. Thompson elected not to file any future interest noncompetitive lease offers at that time. In the meantime, the Reform Act legislation became law on December 22, 1987.

Once the final rulemaking implementing the Reform Act was published in the Federal Register on June 17, 1988, Mr. Thompson contacted the BLM Eastern States Office to schedule a meeting in late June 1988, to discuss the new Act as it pertains to future interest leasing procedures. Mr. Thompson and several other members of SOOGA were in attendance. The competitive process was discussed in depth and also when parcels were available noncompetitively. After the meeting, the Eastern States Office received numerous telephone calls from SOOGA members concerning the changed Reform Act requirements.

ES0(910)

On November 7, 1988, the BLM Eastern States Office responded to another letter dated September 21, 1988, from Mr. Thompson regarding future interest leasing procedures. Also on November 7, 1988, the Eastern States Office responded to a letter from Representative McEwen, dated September 29, 1988, on behalf of Mr. Thompson (Attachment 2).

In February 1989, representatives from the BLM Eastern States Office and the U.S. Forest Service, Wayne National Forest, met with SOOGA members in Marietta, Ohio, to further discuss the Reform Act requirements and the regulations of June 1988 governing future interest leasing procedures. Members of SOOGA also conducted a tour of their oil and gas operations within the National Forest for the BLM Eastern States Office personnel. As a result of this meeting, the BLM's Eastern States Office Milwaukee District prepared a report on "Developed Mineral Reversions within the Wayne National Forest" (Attachment 3). A trip report summarizing the meeting and tour was also prepared (Attachment 4). The BLM Eastern States Office submitted copies of both of these reports to Representative McEwen's office.

On June 5, 1989, representatives from the BLM Eastern States Office and U.S. Forest Service, and Representative McEwen's Legislative Assistant, Ms. Kristen Allman, met with Mr. James H. Zoia, Staff Director, Committee on Interior and Insular Affairs to discuss H.R. 2501, a bill introduced by Representative McEwen to amend the Mineral Leasing Act to provide for the continuation of certain future interest oil and gas leases (Attachment 5).

Members of SOOGA have repeatedly stated that it was their understanding that once these mineral rights revert to the United States, they would be allowed to maintain the leases but would start paying royalty to the United States as the new owner of the mineral rights. When these private leases were purchased, the lessees would have been well advised to order a thorough title report that would have provided them full knowledge that the mineral rights would revert to the United States Government at a specified future date and, accordingly, that the lands would be governed by the then existing Federal oil and gas leasing statutes and regulations. The changed provisions of the Reform Act requiring that all lands, including future interest lands, must first be offered competitively prior to any of the lands being available for noncompetitive lease offer, however, was not foreseen by SOOGA members.

The BLM Eastern States Office has worked closely with Representative McEwen's office and SOOGA to try to minimize the impact of the Reform Act changes on the existing private lease operators working in such future interest land lease areas. It is likely that the special legislation, H.R. 2501, introduced by Representative McEwen, will be reviewed and addressed by the Committee on Interior and Insular Affairs and the U.S. Senate Committee on Energy and Natural Resources to determine its compatibility with the intent of the Reform Act and whether further change to that Act to benefit private leasehold producers on future interest lands is warranted.

The BLM Eastern States Director, Mr. Curt Jones, will be glad to meet and review the situation in more detail with Representative McEwen.

/s/ Dean F. Stepanek
Acting Deputy

5 Attachments

bcc: BLM ESO (910) w/attachments

Sec. File Rm. 6217, MIB
ES: (8) Rm. 6217 MIB
LM (2): Rm. 6628, MIB
PBA: Rm. 5119, MIB
500/RF Rm. 5647 MIB
620:RF (hold) Premier Bldg., Rm. 602
Sec. RF: Rm. 6217, MIB
CL: Rm. 6248, MIB
SOL: Rm. 6352, MIB
BLM: 150, Rm. 5558, MIB
500/Hold Rm. 5647 MIB

LLM:621:Premier Bldg., Rm. 602, Premier Bldg., LMason:jdi/gpw:8/9/89:
Wang No. 0008c

DEPARTMENT OF THE INTERIOR
TASKING PROFILE

DATE PRINTED: 07/10/89 TP #: 15681

OPEN/CLOSED STATUS: O FISCAL YEAR: 89

RECEIVED DATE	DOCUMENT DATE	DUE DATE	ACTION OFFICE	ACTION REQUIRED
07/07/89	06/21/89	07/31/89	LLM	SS

ADDRESSEE: Secretary Lujan

FROM: MCEWEN, BOB
REPRESENTATIVE
HOUSE OF REPRESENTATIVES
WASHINGTON, DC

SUBJECT TEXT: REQUESTING YOUR ASSISTANCE IN RECTIFYING THE SERIOUS CRISIS INVOLVING THE SMALL OIL AND GAS LEASES IN SOUTHEASTERN OHIO - SMALL PRODUCERS WERE UNJUSTLY PENALIZED...

SURNAMES: SOL, PBA, CL, LM

COPIES TO: ES-FILE, CS, US, CL-3

CROSS-REFERENCE:

SPECIAL INTEREST: SPECIAL INTEREST ID:

ACKNOWLEDGEMENT LETTER SENT WITHIN 24 HOURS

SRO	ANALYST	ES PHONE	SOURCE
AAKEARY	JROBERTSON	343-3572	CM

BOB MC EWEN
6TH DISTRICT, OHIO

SELECT COMMITTEE ON INTELLIGENCE
SUBCOMMITTEE ON LEGISLATION
VICE CHAIRMAN

PUBLIC WORKS AND TRANSPORTATION COMMITTEE
SUBCOMMITTEES:
INVESTIGATIONS AND OVERSIGHT
SURFACE TRANSPORTATION
ECONOMIC DEVELOPMENT
RANKING MEMBER

VETERANS' AFFAIRS
SUBCOMMITTEES:
COMPENSATION, PENSION, AND INSURANCE
RANKING MEMBER
HOSPITALS AND HEALTH CARE

2431 RAYBURN HOUSE BUILDING
202 225-5705

DISTRICT OFFICES:
POST OFFICE BUILDING
HILLSBORO, OH 45133
513 393-4223

POST OFFICE BUILDING
PORTSMOUTH, OH 45662
614 353-5171

COUNTIES:
ADAMS
ATHENS
BROWN
CLERMONT
CLINTON
FAYETTE
HIGHLAND
HOCKING
JACKSON
MONTGOMERY
PIKE
ROSS
SCIOTO
VINTON
WARREN

Congress of the United States
House of Representatives
Washington, DC 20515

June 21, 1989

The Honorable Manuel Lujan
Secretary of the Interior
Department of Interior
C St. between 18th and 19th Sts.
Washington, D.C. 20240

Dear Secretary Lujan:

Recently a serious situation concerning many small oil and gas leases in Southeastern Ohio came has come to light. At this time I would like to enlist your assistance in rectifying a situation which unjustly penalizes these small producers.

Secretary Lujan, many of these producers leased private lands which, though later sold to the US Forest Service, reserved the mineral rights for a number of years. These producers exerted their rights to develop these resources, believing that when the minerals reverted to the US, the leases would revert as well.

Unfortunately, the present Mineral Leasing act, along with the changes made in 1987, does not take this situation into account. BLM has informed these producers that when the mineral rights revert, the leases no longer exist and are subject to competitive bidding, regardless of whether or not the land has been developed and the well is producing in paying quantities. The lack of distinction between developed and nondeveloped leases can lead to a situation where speculators outbid these small producers, thus taking from them the well they developed. In addition, the producers must reach a private agreement concerning the equipment on the land with any new owner, equipment which the previous owner cannot use without the well and cannot easily remove from the well site.

Recently I introduced legislation which will not infringe on the basic purposes of the Mineral Leasing Act, and yet still permit these producers to hold their reverting leases. Present US law provides for federal leases to be continued as long as they are producing in paying quantities. This legislation continues that policy by estending this policy to lease holders who operate wells on land which reverts to the U. S. Enclosed is a copy of this measure, as well as the remarks made upon its introduction.

The Bureau of Land Management in Milwaukee and the Forest Service in Wayne National Forest, Ohio, both recognize the unfair burden this law places on these small producers. Any administrative assistance you can give to rectify this situation would be greatly appreciated by the many oil and gas producers in Ohio who are worried about this situation.

Thank you for your time. If I can provide you with any additional information, or be of assistance in any way, please do not hesitate to call upon me. I look foward to working with you on this matter of mutual concern.

With warmest personal regards,

Sincerely,

BOB McEWEN
Member of Congress

BM:kya
Enclosure

101ST CONGRESS
1ST SESSION

H. R. 2501

To amend the Mineral Leasing Act to provide for the continuation of certain future interest oil and gas leases.

IN THE HOUSE OF REPRESENTATIVES

MAY 25, 1989

Mr. MCEWEN introduced the following bill; which was referred to the Committee on Interior and Insular Affairs

---

A BILL

To amend the Mineral Leasing Act to provide for the continuation of certain future interest oil and gas leases.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. CONTINUATION OF CERTAIN VESTED FUTURE INTEREST OIL AND GAS LEASES.

Section 17(b) of the Mineral Leasing Act (30 U.S.C. 226(b)) is amended—

(1) in paragraph (1)(A), by striking "under paragraph (2)" and inserting "under paragraphs (2) and (3)"; and

(2) by adding at the end the following:

H. R. 2501

To amend the Mineral Leasing Act to provide for the continuation of certain future interest oil and gas leases.

IN THE HOUSE OF REPRESENTATIVES

May 23, 1990

Mr. McEvoy introduced the following bill; which was referred to the Committee on Interior and Insular Affairs

---

A BILL

To amend the Mineral Leasing Act to provide for the continuation of certain future interest oil and gas leases.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 SECTION 1. CONTINUATION OF CERTAIN FUTURE INTEREST OIL
4 AND GAS LEASES.
5 Section 17(b) of the Mineral Leasing Act (30 U.S.C.
6 226(b)) is amended—
7 (1) in paragraph (1)(A), by striking "under para-
8 graph (2)" and inserting "under paragraphs (2) and
9 (3)"; and
10 (2) by adding at the end the following:

"(3) If—

"(A) the lands to be leased are lands in which—

"(i) the United States held a vested future interest in the mineral estate and a vested present interest in the surface estate; and

"(ii) immediately prior to becoming a vested present interest in the United States, the mineral estate was subject to a lease under which oil or gas was being produced in paying quantities; and

"(B) the holder of the lease referred to in subparagraph (A)(ii) elects to continue that lease;

then such lands shall be leased, subject to the same terms and conditions specified in that lease, including the amount of royalty payments and rents, except that such royalty payments and rents shall be paid to the United States. Such lease shall continue so long as oil or gas is produced in paying quantities. Subsections (c)(1), (d), and (e) shall not apply with respect to a lease issued under this paragraph.".

O

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

1541 (150)

CONTROLLED CORRESPONDENCE

MEMORANDUM

TO: **Director, Eastern States Office**

FROM: Director (150)

SUBJECT: **Request for Assistance In Rectifying The Serious Crisis Involving The Small Oil And Gas Leases In Southeastern Ohio**

CORRESPONDENT: **Representative Bob McEwen**

CONSTITUENT.

CONTROL NUMBER: ES15681

[ ] 1. The attached correspondence is forwarded to you for preparation of a report or draft reply, to reach the Director ( ) within [ ] ten (10) [ ] twenty (20) days from the date of this request.

[X] 2. The attached correspondence is forwarded to you for appropriate action and direct reply to the correspondent. Replies must be signed by the State Director or Associate. A copy of your reply shall be forwarded to the Director (150) Rm 5558 & (620) Rm 602
State Directors must reply to correspondent within [ ] five (5) [X] ten (10) [ ] twenty (20) days or as otherwise directed.

[X] 3. By copy of this memorandum the appropriate [ ] White House Official [X] Member of Congress [ ] General Public or [ ] Constituent has been notified of this referral to the above State office for reply.

Stanley L. Penn
(Chief, Office of Congressional Affairs)

July 18, 1989
(Date)

LEAVE THIS MEMORANDUM ATTACHED TO CORRESPONDENCE

Form WO 1541-10 (April 1984)

17038351767 PAGE.001

June 14, 1989

Jim Zofa
House Subcommittee on Mining

Jim - Per your request we've pulled together some information on the amount on private minerals under Forest Service administered surface, of which the private minerals will be reverting to government ownership.

This data was pulled from a report compiled by our Washington Office Lands staff in March of 1984, but still reflects the amount of private minerals reverting to Federal ownership.

R-1	9,442	1962-2004
R-2	67,769	1985-1990
R-3	135,000	1988-2040
R-4	8,690	1989-2016
R-5	3,450	1990-1991
R-6	0	
R-8	398,745	1986-2021
R-9	737,957	1984-2034
Total	1,361,053 acres	

A more difficult task is determining of these minerals reverting, what percentage have producing oil or gas wells on them, and of those, which deeds did not contain protective language (which postponed the reversion as long as oil or gas was produced in paying quantities). We do have information for:

Ohio - 26,867 acres reverting by 1994, possibly 40+ wells affected. Apparently most of these wells are stripper wells.

Texas - 237,000 acres reverted in 1988 -1989 time period. About 6 tracts did not have protective language. There have been no complaints by previous mineral owners, and the successful bidder has not always been the previous lessee of the private minerals. Our field people report that agreements on the well equipment are reached "by days end" on the day of the sale. Recent bids on producing acres were:

4/88	1,333 acres	$ 332,000
8/88	7,855	4,136,000
10/88	5,119	4,178,319
2/89	1,034	183,290
Totals	15,341 acres	$8,830,400

Kansas - Cimarron Grasslands, 1987-1988 bonus bids on reverting acres totaled $33,000,000. There has been no complaints by previous owners or lessees.

Problems and Possible Solutions: 1) Getting future interest leases up for sale before the reversion occurs. This can be addressed administratively by BLM and FS., 2) Private mineral owner/lessee has no preference right to leases. The 1987 Leasing Reform Act would need to be amended, but bonus bids would be forgone., 3) Well equipment owned by previous lessee. For any lease, especially strippers, the equipment(including the well) may be worth more than the remaining mineral resource, which gives the equipment owner significant bargaining power. Our experience is that this has been resolved by the private parties. Interjecting the government into the process may complicate matters.

Note: This document represents information requested by the House Subcommittee on Mining in connection with their review of H.R. 2501 introduced by Congressman McEwen. The Forest Service Washington Office compiled the data.

Buster LeMore, Minerals, USFS Washington Office

JUN 14 '89 15:13 DSCN FS ROSSLYN

situation, all of the corporation's income would be treated as passive income even though only 5 percent of its income is, in fact, passive. Clearly, this is grossly inappropriate. The only relevant criterion for determining whether or not all of a corporation's income should be treated as passive income is the ratio that actual passive income bears to total income. Thus, the asset test should be deleted.

It might be argued that excluding U.S. shareholders of controlled foreign corporations from the scope of the PFIC provisions solves the major problem of those provisions, and thus it is not necessary to also eliminate the asset test. However, there are numerous instances where U.S. companies become involved in foreign joint ventures—in corporate form—where local law prohibits majority ownership by nonnationals, or where the business arrangements make majority U.S. ownership impossible or impractical. Where U.S. persons invest in such arrangements, they should not be penalized by the application of the PFIC rules where the foreign corporation is not earning substantial passive income. Accordingly, the asset test must also be deleted to insure fairness to these minority U.S. investors in active businesses.

We would urge our colleagues to support this bill, which restricts the reach of the PFIC provisions to the abuse originally targeted by Congress, so that those provisions do not unnecessarily hobble our international competitiveness or unfairly treat investors in active businesses as holding interests in tax haven type operations.

TRIBUTE TO JOHN B. (JACK) GILBERT

HON. ROBERT J. LAGOMARSINO

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 25, 1989

Mr. LAGOMARSINO. Mr. Speaker, I rise today to ask my fellow Congressmen to join me in recognizing John B. (Jack) Gilbert as the first recipient of the "Hall of Fame Award" given by the Ventura County Economic Development Association [VCEDA], Ventura, CA.

As the recipient of this award, Mr. Gilbert, founder and chairman of TOLD Corp., in Oxnard, CA, was honored for his significant contributions to economic and commercial development in Ventura County, CA.

Mr. Gilbert's business success began more than 40 years ago. In 1952, he founded the Zero Corp., a multimillion dollar NYSE company. Over the next two decades, this small, sheet-metal manufacturing corporation grew to become one of the Nation's leading electronic packaging houses.

In 1973, after 21 years as its director, Mr. Gilbert turned over the day-to-day operations of Zero to his management team, but continued to play an active role in the corporation as chairman of the board. In the same year, Mr. Gilbert moved to Ventura County, CA, where he founded the Thousand Oaks Land and Development Co.

In 1983, Gilbert shortened the name of his company to TOLD Corp., and extended its range of services to include every aspect of commercial and industrial real estate. Today, TOLD has operations in five States and includes eight corporate divisions specializing in industrial and commercial development, residential development, financial services, construction, real estate sales and leasing and property management.

In Ventura County, TOLD has been responsible for the development of more than 4 million square feet of commercial properties and the construction of several facilities including Channel Islands Business Center.

In addition to his outstanding contribution to business, Gilbert is also an associate member of the University of Southern California Century Club and the Editorial Advisory Board of the Southern California Real Estate Journal.

In 1987, Gilbert was recognized as one on the top real estate executives of the year by Executive magazine while TOLD has been ranked among the top 100 industrial and commercial developers nationwide.

It is obvious that John B. (Jack) Gilbert has contributed a great deal to both his profession and his community. He is a fine example of a businessman and a distinguished citizen. I ask, then, that my colleagues join me in congratulating Mr. Gilbert and wishing him continued success in the future.

OIL BILL

HON. BOB McEWEN

OF OHIO

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 25, 1989

Mr. McEWEN. Mr. Speaker, I rise today to introduce a bill which will alleviate a problem which faces many small oil and gas producers in Ohio. This is a problem which has not been properly addressed by Mineral Leasing Act, and one which would be in the best interests of both the United States and these producers to change.

As you know, Mr. Speaker, under the changes made in 1987 to the Mineral Leasing Act, all oil and gas leases must be leased competitively. This change was made to prevent abuses of the noncompetitive lottery leasing system. However, this change discriminates against producers who leased private lands which, though later sold to the U.S. Forest Service, reserved the mineral rights for a number of years. These producers were given leases to develop these minerals, and many did so believing that when the mineral rights reverted to the United States, the leases would revert as well. However, the change in the law causes their leases to become null and void, forcing the leases to be put up for competitive bidding.

The changes made in 1987 clearly did not take this situation into account. These producers are small producers, with small wells. The Bureau of Land Management has performed a study of the area, and estimates that the average well owner makes roughly $4,000 per year. From this a standard royalty rate of 12.5 percent is removed, plus the labor, maintenance, supplies, and capital expenditures. All in all, BLM estimates the profit margins are equivalent to that of a money market account in a bank. The majority of these wells produce maybe 150 barrels of oil yearly. Clearly, this is a situation involving small producers who are earning low profits while at the same time contributing to the United States by utilizing the minerals which would otherwise go untapped.

These small producers are penalized by this law, which would take from them not only the land they leased in good faith, but the time and capital they put into the equipment and labor to drill and produce. They created the wells, and are now told that when the mineral rights revert, they must walk away from them. It is possible for speculators with larger financial resources to outbid these small producers, thus taking from them in one fell swoop the well they developed. To add insult to injury, BLM has informed these producers that they must reach a private agreement concerning the equipment on the land with any new owner. It is obvious that such a situation would be a buyers market, with the original owner unable to use the equipment placed on the well, nor able to move it to another well.

The legislation I am introducing will not infringe on the basic purpose of leasing lands competitively, which is to ensure the United States a fair return on its resources. Instead, it will clarify an ambiguity in the law while upholding a principle maintained in the Mineral Leasing Act. This principle is the paying quantities principle. The Mineral Leasing Act provides that all Federal leases may continue so long as the well in question is producing producing oil and gas in paying quantities. Producers who leased private lands which later revert to the United States, however, are barred from this continuing lease because the leases are not technically Federal. This legislation would permit those producers holding mineral leases which revert the United States and which are producing oil or gas in paying quantities to continue the lease, paying all U.S. law provides for Federal leases to be continued as long as they are producing in paying quantities. The United States would benefit from the uninterrupted production at these wells, and would obtain a stable source of revenue. Although these wells are small, some of them have been producing since the late 1800's to early 1900's. One well drilled in 1923 is still producing today, although its owner sells one barrel of oil a year. While that may not seem like much, it is still one barrel less that the United States must buy from OPEC.

Finally, Mr. Speaker, you may be interested to know the opinion of the Forest Service concerning this idea, since many people are concerned with the environmental impact of mining actions. In 1987, the Forest Service conducted a review of the actions in Wayne National Forest, where much of this action happens in Ohio. The Forest Service found that the staff in the forest does an outstanding job and has an excellent relationship with the people who are involved in different aspects of the forest. More importantly, however, the Forest Service analyzed the BML position on leasing, as mandated by the law, and recommended that the law be changed to remove the obstacles to the multiple use of this forest reserve.

Mr. Speaker, I am sure that you and my colleagues can see the merit of this legislation and its promotion of both the energy and environmental interests of the United States. These people are small producers who know their wells, they work with the Forest Service and the Bureau of Land Management to keep their operations within the law, and want only to continue what they have done in the past, turning over to the United States the royalties

and rents which were paid to private owners. Mr. Speaker, I urge your support for this legislation.

TRIBUTE TO ANTHONY J. GIRARD

HON. RONALD K. MACHTLEY

OF RHODE ISLAND

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 25, 1989

Mr. MACHTLEY. Mr. Speaker, it is my distinct pleasure to congratulate Anthony J. Girard, of Providence, RI, this year's recipient of the first annual Ronald K. Machtley Award for Mount Saint Charles Academy in Woonsocket, RI.

This award is presented to the student, chosen by Mount Saint Charles Academy, who demonstrates a mature blend of academic achievement, community service, and leadership qualities.

Anthony has clearly met this criteria by being an excelsior honor roll student for 6 years and a recipient of the Presidential Academic Fitness Award. His extracurricular activities include being on the executive committee of the student council for the past 4 years.

I commend Anthony for his achievements and wish him all the best in his future endeavors.

IN RECOGNITION OF RONALD W. THOMSON'S 39 YEARS OF SERVICE TO WOLVERINE FEDERAL SAVINGS ASSOCIATION

HON. BILL SCHUETTE

OF MICHIGAN

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 25, 1989

Mr. SCHUETTE. Mr. Speaker, I rise today to honor Ronald W. Thomson who is retiring from Wolverine Federal Savings Banks after 39 years of service. Mr. Thomson, a life long resident of Midland, has had a long and distinguished tenure with Wolverine Federal. He began in 1950 after graduation from Central Michigan University. In 1954 Ron was named the treasurer of the association, and in 1973 he was promoted to secretary treasurer. In 1976 he was appointed to the board of directors, and named vice president and secretary. Finally in 1983 Ron was appointed executive vice president of the association.

Ronald's contributions go far beyond his impressive work experience. He has long been an active and important contributor to the community. He was a member of the Financial Managers Society, as well as founding member of the Saginaw Valley Chapter of the Institution for Financial Education. Ron and his wife Donna, are also members of St. Brigids Church.

Mr. Speaker, I ask that you join me in saluting Ronald W. Thomson. He has provided 39 years of outstanding service to Wolverine Federal, and has been active in the community in his efforts to assist others. Please join me in wishing Ronald, Donna, and their three children the best in the future.

SUNEETA KRISH WINS NATIONAL MAP CONTEST

HON. GUS YATRON

OF PENNSYLVANIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 25, 1989

Mr. YATRON. Mr. Speaker, earlier this month, I told you about a bright and talented high school student named Suneeta Krish. Suneeta is currently a senior at Governor Mifflin High School in Shillington, PA.

I am again focussing attention on Suneeta because she was recently awarded first place in the nationwide "Discover Early America Map Contest." This contest was sponsored by the Commission on the Bicentennial of the U.S. Constitution and thousands of students from all over the country competed in the contest. Each student participating in the competition was required to decorate a map of the United States depicting significant events in early American history. The contestants' entries were judged for historical accuracy, artistic creativity, and imagination.

Suneeta's outstanding showing in this contest has earned her a trip to Washington, DC, where she will meet former Chief Justice of the Supreme Court, Warren Burger, who is the Chairman of the Commission on the Bicentennial of the U.S. Constitution. In addition, Governor Mifflin High School will receive a check for $5,000 due to Suneeta's excellent work.

Mr. Speaker, Suneeta Krish is truly an extraordinary young woman and her talents and ability are manifest in her distinguished finish in the "Discover Early America Map Contest." I congratulate Suneeta on her fine achievement and wish her continued success and good fortune in all her future endeavors.

COMPACT OF FREE ASSOCIATION WITH PALAU LEGISLATION

HON. RON de LUGO

OF THE VIRGIN ISLANDS

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 25, 1989

Mr. DE LUGO. Mr. Speaker, in March, 65 Members joined me in cosponsoring legislation to authorize a Compact of Free Association with Palau to be put into effect when it is approved by Palau. House Joint Resolution 175 would also provide Palau with help it needs to tackle serious problems which have prevented approval of the compact to date.

House Joint Resolution 175 is identical to legislation agreed upon in a compromise just minutes too late to be enacted in the 100th Congress. Under the compromise, the executive branch would fulfill all of the requirements of the House version of the legislation in the last Congress, House Joint Resolution 597, without being required to do so by statute. The Congress, in turn, would pass a Senate substitute with one mutually agreed-upon amendment.

Unfortunately, the Reagan administration did not take the actions it could to implement the compromise.

When House Joint Resolution 175 was introduced, I said that, as chairman of the Subcommittee on Insular and International Affairs, I would seek approval as soon as the new administration took the actions it could to implement the compromise. The administration was told that one thing it could do was enter into an additional agreement with Palau committing to implement the requirements of the compromise.

The Bush administration then said that it would honor the compromise. Since then, the State Department official who agreed to the compromise last year has been negotiating a subsidiary agreement.

The first two drafts of the agreement he proposed fell short of the requirements of the compromise. But he is meeting in Guam with Palau's representatives this week and I am hopeful that they will reach the necessary agreement.

The chairman of the committee of the other body with jurisdiction over insular matters said last month that the Senate would not act on the legislation this year because time had run out for the compromise. I do not think that time has run out already; but I would agree that it will soon run out.

The mutually agreed-upon amendment to the Senate bill would, for example, make it possible to settle Palau's crippling $48 million power facilities debt for $32 million; but the settlement requires payment this fiscal year.

Earlier this year, Palau's leaders said—as they did last year—that the requirements of the last Congress' House Joint Resolution 597 offer the only chance of the compact being approved by their people. The consensus necessary to enable the compact to be approved by the required 75 percent majority vote is increasingly threatened as the administration has dragged its feet and tried to chip away at the compromise.

If the necessary agreement is reached, I will propose expeditious action. Inaction on the other side of the Capitol could prevent approval; but I would hope that the Senate will stand by the compromise.

A TRIBUTE TO LUANNE PRYOR

HON. GLENN M. ANDERSON

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 25, 1989

Mr. ANDERSON. Mr. Speaker, I rise today to pay tribute to Ms. Luanne Pryor, "Woman Democrat of the Year for the 58th Assembly District." Ms. Pryor's extensive civic and professional experience distinguishes her as a dedicated citizen and deserving of this honor by the Los Angeles County Democratic Party. I feel proud to have constituents such as Luanne in Long Beach, and I am happy to take this opportunity to express my appreciation for Luanne's time, effort, and commitment to her community.

Ms. Pryor is a native Californian who received a bachelor of arts degree from California State University, Long Beach. In addition, she received a degree of master of administration, planning and social policy from the Harvard Graduate School of Education with cross registration at Harvard Business School and the John F. Kennedy School of Government.

Dedication, improvement, and community service are words which follow Luanne throughout her career. Time and again she

101ST CONGRESS
1ST SESSION

H. R. 2501

To amend the Mineral Leasing Act to provide for the continuation of certain future interest oil and gas leases.

IN THE HOUSE OF REPRESENTATIVES

MAY 25, 1989

Mr. MCEWEN introduced the following bill; which was referred to the Committee on Interior and Insular Affairs

---

A BILL

To amend the Mineral Leasing Act to provide for the continuation of certain future interest oil and gas leases.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. CONTINUATION OF CERTAIN VESTED FUTURE INTEREST OIL AND GAS LEASES.

Section 17(b) of the Mineral Leasing Act (30 U.S.C. 226(b)) is amended—

(1) in paragraph (1)(A), by striking "under paragraph (2)" and inserting "under paragraphs (2) and (3)"; and

(2) by adding at the end the following:

"(3) If—

"(A) the lands to be leased are lands in which—

"(i) the United States held a vested future interest in the mineral estate and a vested present interest in the surface estate; and

"(ii) immediately prior to becoming a vested present interest in the United States, the mineral estate was subject to a lease under which oil or gas was being produced in paying quantities; and

"(B) the holder of the lease referred to in subparagraph (A)(ii) elects to continue that lease;

then such lands shall be leased, subject to the same terms and conditions specified in that lease, including the amount of royalty payments and rents, except that such royalty payments and rents shall be paid to the United States. Such lease shall continue so long as oil or gas is produced in paying quantities. Subsections (c)(1), (d), and (e) shall not apply with respect to a lease issued under this paragraph.".

○

RECEIVED
JUN 5 1989
BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

WAYNE — HOOSIER NATIONAL FOREST

WAYNE-HOOSIER

NOTES

RECEIVED
MAY 19 1989
BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

4/26/89

Tim —

Your March 89 memo concerning mineral reservations on the Wayne N.F. was very thorough and well written. You certainly captured the essence of the reversion problem — both from a technical standpoint and from a social standpoint.

I hope your efforts and initiative will result in a reasonable solution — agreeable to all.

Could you send me the list of mineral reversions mentioned in the 2nd paragraph - page 3 of your memo?

Thanks,

Dan Kincaid
Wayne N.F.
Rt. 1, Box 132
Marietta, Oh.
45750

Memorandum

To: Developed Mineral Reversion Case File

From: Petroleum Engineer, Milwaukee District Office

Subject: Trip Report, May 8 - 12,1989; Wayne National Forest

On the morning of May 8,1989, I met with Ms. Christine Allman, legislative aide to U.S. Congressman Robert McEwen of Ohio's 6th Congressional District, several members of the Southeast Ohio Oil and Gas Association (SOOGA), and the Forest Service's Athens District Ranger and several of his staff members, at the Forest Service office in Marietta, Ohio. SOOGA had arranged this meeting to discuss the issue of mineral reversions that contain producing wells. SOOGA is seeking legislative relief from BLM's current policy of competitively leasing lands containing wells when mineral rights revert and private lease rights expire.

Congressman McEwen is drafting legislation to amend the Mineral Leasing Act to address the concerns of SOOGA. Prior to introducing such legislation, he sent Ms. Allman to personally visit the area and survey the situation.

The District Ranger presented an overview of the history and extent of oil and gas operations within the Wayne National Forest. I discussed the reverting minerals issue from the BLM perspective (i.e. administrative procedures). I also discussed the technical and procedural problems associated with competitive leasing in this situation. SOOGA representatives also expressed their frustration over the matter.

Later in the morning, the group went on a tour of typical operations in the Wayne National Forest, which included an oil well pumped by shackel-line. It was the intent of the tour to focus on the unique aspects of oil production in southeast Ohio.

I spent the remainder of the week conducting inspections of private acquired oil and gas leases in the Marietta Unit of the Wayne N.F.

Timothy Ating

Milwaukee District Office
P.O. BOX 631
310 West Wisconsin Avenue
Milwaukee, Wisconsin 53201-0631

030:TA
3100

C

MAR 27 1989

Memorandum

To: State Director (910A)

From: District Manager, Milwaukee

Subject: Transmittal of Staff Report on Developed Mineral Reversions within the Wayne National Forest

Enclosed for your review is the subject report prepared by Tim Abing of our Fluid Minerals Division. As you know, the Southeastern Ohio Oil and Gas Association (SOOGA) has been persistent in efforts to bring attention to their situation by making contacts with legislators and different offices within the BLM and Forest Service. SOOGA had specifically requested the Milwaukee District Office to prepare this report hoping acknowledgement by a BLM field office close to the situation that a problem exists would lend credence to their position.

If you have any questions, please feel free to contact Tim Abing directly at (414) 291-4438.

Enclosures (2)
1. Location Map
2. Listing of Mineral Reversions

Acting

(ORG. SGD.) CHRIS E. HANSON

cc: Bert Rodgers (w/o encl.)
Chris Hanson (w/o encl.)
030:TAbing:jdh:3/27/89:5754A

DEPARTMENT OF THE INTERIOR
MILWAUKEE DISTRICT OFFICE
P.O. BOX 631
310 West Wisconsin Avenue
Milwaukee, Wisconsin 53201-0631

030:TA
3100

Memorandum

To: Assistant District Manager-Fluid Minerals, Milwaukee

From: Petroleum Engineer

Subject: Staff Report on Producing Mineral Reversions Within the Wayne National Forest, Ohio

On February 23,1989, representatives of the Wayne National Forest, the Eastern States Office (971), the Milwaukee District Office, and the Southeastern Ohio Oil and Gas Association (SOOGA) met to discuss concerns regarding developed mineral reversions in the Marietta Unit of the Wayne National Forest. SOOGA had requested the meeting to express their concern that BLM's present procedure of competitively leasing developed mineral reversions could have serious impacts to an already depressed local oil and gas industry. SOOGA's concern warrants serious analysis by all involved parties in that the realities of the oil and gas industry in Southeastern Ohio and the related case history that has transpired in the District since 1974 indicates that competitive leasing of these tracts is discouraging oil and gas development and precluding the maximum economic recovery of Federal hydrocarbon resources in that area. It is the intent of this report to provide BLM managers with pertinent information and observations on the subject based on the discussions with SOOGA and our experience with local operations.

Developed mineral reversions refer to producing wells, located on Federal lands subject to a private mineral reservation that will expire during the producing life of the well(s). These wells were drilled under the authority of private leases issued after the Government acquired its future mineral interest. Under the principles of property law, the owner of a mineral reservation cannot create an interest in land to endure beyond the specified term of the reservation. Therefore, these leases will expire on the date the minerals revert to the Government, regardless of whether or not the lease is in producing status. The Federal oil and gas leasing laws also do not distinguish between producing and non-producing status of reverting tracts and require that all lands must be leased competitively. SOOGA would like the BLM to recognize this distinction and institute a preference procedure to allow operators of producing wells on reverting minerals to continue operations without having to go through the competitive leasing process and run the risk of not being the successful bidder for a tract that contains their own wells. SOOGA believes that failure to recognize this distinction may have a severe negative impact on the operators of an estimated 40 oil and gas wells that are

located on mineral interests that are due to revert to the Government over the next six years. Although SOOGA' estimate of wells on reverting minerals has not been verified by BLM or the Forest Service, it is known that by the end of 1994 the Federal Government will acquire an additional 26,867 acres of mineral interest in the Wayne National Forest due to expiring mineral reservations. Given the high density of oil and gas wells in this part of Ohio, it is likely that SOOGA's estimate of 40 wells may grossly understate the magnitude of the situation.

To understand how competitive leasing could negatively impact developed mineral reversions, some background on the nature of the oil and gas industry in Southeastern Ohio is necessary.

Hydrocarbons have been commercially produced in Southeastern Ohio since 1860. It is an area that has been extensively explored, drilled, and produced via primary production to a point nearing depletion. Presently, there are nearly 600 wells on 50,000 acres of Federal surface in the Marietta Unit of the Wayne National Forest alone. This well density makes the likelihood of any "new" oil and gas discoveries in the shallow producing zones of the area extremely low. The majority of local wells are at the extreme lower end of the "stripper" category (i.e. producing 10 barrels per day or less) as yearly production rates of 150 barrels of oil and 500 Mcf of gas per well are typical with many wells operating at lesser rates. These wells would undoubtedly be plugged and abandoned in most producing regions in the nation if not for the small scale local producers. These producers are maximizing the recovery of Federal oil and gas beyond what is standard for the industry.

Most wells are owned and operated by small local independents or sole proprietorships. The largest producer in the area employs 25 people but the majority of the local operators employ 5 people or less to assist in well tending and maintenance. Income from producing wells in the area are able to sustain little overhead and essentially preclude all but the smallest of independent oil companies. It is not unusual for some operators to work full- or part-time jobs to supplement income from their wells.

The economics of hydrocarbon production in Southeastern Ohio is at best marginal. Gross income from a typical well is $4000 per year with the standard 12.5% royalty rate reducing that amount to $3500. When deductions are made for labor, maintenance, supplies, and capital expenditures, operators can rarely claim profit margins in excess of what one could get from a money market account at a financial institution.

Given this background and the limited amount of financial resources available to local producers, it is understandable that SOOGA would fear an adverse economic impact from competitively leasing developed mineral reversions. SOOGA feels that an operator's capital investment in a developed mineral reversion would restrict the amount he would be able to bid in a competitive sale. Although he may have the most incentive to bid because of his investment, the limited financial resources of local producers preclude this. Alternately, a tract with established production is certainly to be of interest to lease brokers, whose motives are likely to be purely speculatory with no intention of actual lease development.

Competitive leases containing preexisting producible wells have been issued in the Wayne N.F. in the past, with the stipulation that a third-party lessee (i.e. a party other than the well owner) does not acquire any interest in any preexisting wells or equipment on the lease. Therefore, the third-party lessee must either negotiate with the well owner to acquire the rights to the well, transfer lease rights to the well owner, or drill and produce their own wells. A speculating lessee would be willing to sell the lease to the well owner or obtain an overriding royalty on well production for a price that would cover any bonus and rental expenses plus a profit. This is an amount in excess of that which the well owner was willing to bid in the first place! Faced with operating at a less than reasonable profit, well owners would likely cut their losses by not negotiating an agreement with the lessee, removing their equipment from the lease, and abandoning the involved wells. Not only does this situation make for poor use of a prudent operator's financial resources, but the abandoned wells could also result in an outstanding liability to the United States requiring significant administrative/legal expense to resolve.

To date in the Milwaukee District there are only three case histories involving developed mineral reversions in the Wayne N.F. to substantiate the scenario described in the preceding paragraphs. The limited number of cases is indicative of the land acquisition procedures of the Forest Service rather than the lack of a problem. Attached is an excerpt from a report of mineral reservations in the Wayne N.F. which includes the dates the minerals will revert to the United States. Through 1988 there have only been 58 term mineral reservations that have expired. However, the next 10 years well see nearly 500 mineral reservations expire with the accompanying mineral acreage vesting in the United States!

The three case histories referred to in the Milwaukee District have resulted in both the lessee and well owner failing to reach an agreement to allow continued operation of the existing well. In one instance, the well owner (John Altier Trespass Case) opted to remove his equipment from the lease, abandon the well, and experience a substantial loss. Another operator (Barton Holl Trespass Case) continued to produce his well in trespass until final abandonment. After ten years BLM finally stopped pursuit of its trespass case in the interest of cost effectiveness. In the most recent case (Constitution Petroleum Trespass Case), the lack of an agreement has left the well shut-in for the past nine years without ever having produced any oil and gas. The third party lessee(speculator) never drilled any other wells and the lease eventually expired due to the lessee's failure to pay rental.

The tract is presently unleased awaiting the next competitive lease sale. All three cases have required the Federal Government to expend significant time and effort in pursuit of trespass cases against each of the well operators with one requiring prosecution by the Justice Department. All three cases took longer than nine years to resolve. In all three cases, the operators proceeded in defiance of written and verbal instructions to the contrary because of their confusion over regulatory procedures and their disbelief that the Federal Government had the legal authority to take its course of action.

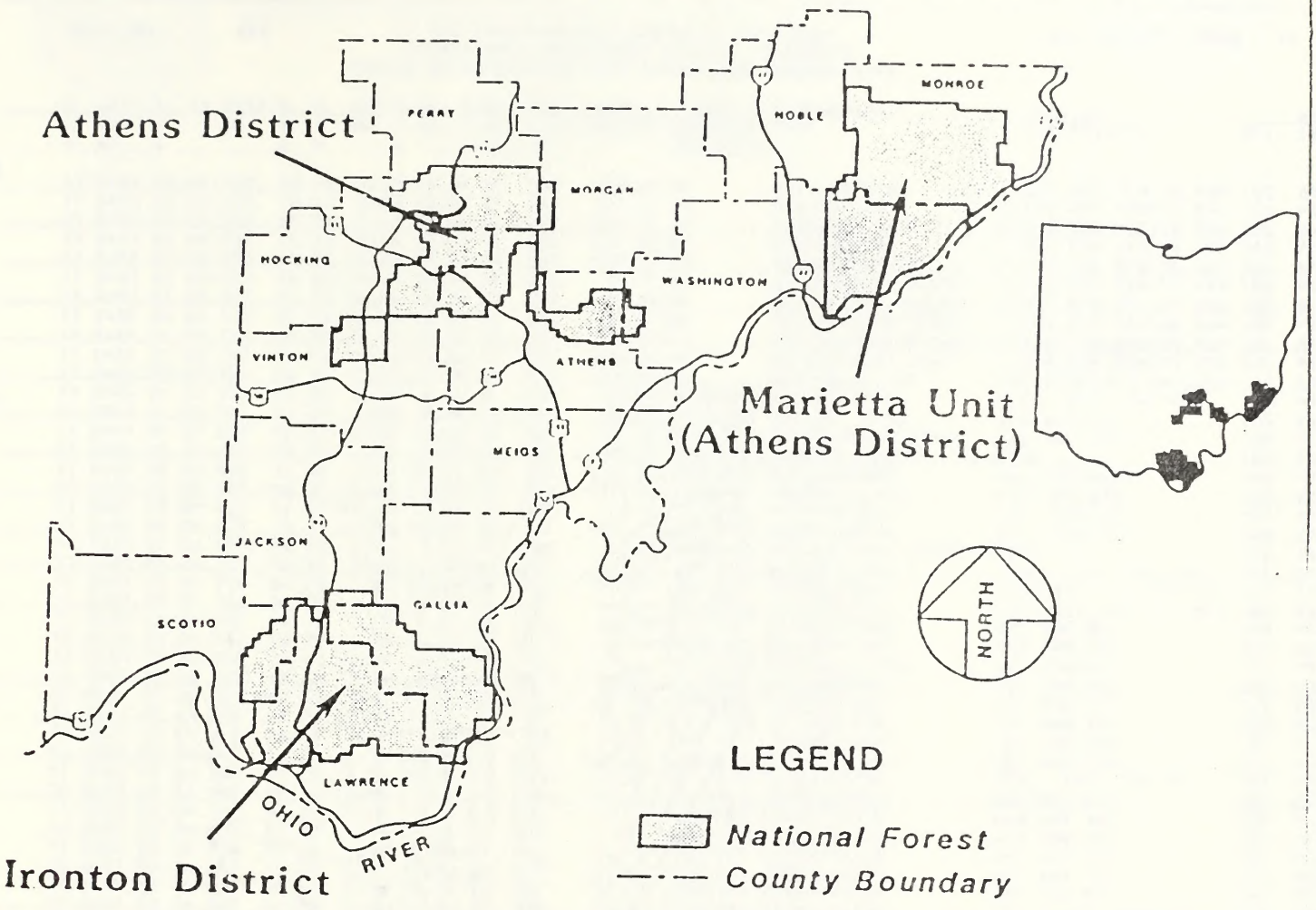
Competitive leasing of developed mineral reversions is even discouraging oil and gas development prior to vesting in the United States as local producers have postponed the drilling of wells on mineral reversions to avoid the aforementioned circumstances. It is also a real possibility that should a well owner decide to abandon a well on a lease rather than negotiate an agreement to produce with a third party lessee, the remaining reserves may be depleted to a point where any new drilling on the tract would be uneconomical. Thus, hydrocarbons that could have been recovered would be lost.

In conclusion, the case history of developed mineral reversions in Southeastern Ohio, albeit limited, has exhibited an abundance of confusion and inefficiency and suggests the need for a different approach. SOOGA advocates any procedure that will allow the owner of a producing well to continue uninterrupted production after the minerals revert to the United States. They are investigating all aspects of implementing such a change including legislative, regulatory, and administrative options. Regardless of the means to an end, it is an effort rooted in the interest of resource conservation and better land management.

Timothy F. Abing

LOCATION MAP

Wayne National Forest



The Wayne National Forest is located in southeastern Ohio, with offices in Athens, Ironton, and Marietta. The gray units shown on the map below represent district boundaries. Only a portion of the land within these boundaries is National Forest. These lands were acquired over the past 50+ years as they became available for purchase. Many of the tracts were once abandoned, eroded farms. Due to the concientious work of several Ohioans, the Wayne National Forest still has an active land acquisition program today and has grown to a Forest of over 178,000 acres in 1986.

Forest Service Offices:

Forest Supervisor's Office
Wayne-Hoosier National Forest
3527 10th Street
Bedford, IN 47421

Athens Ranger District
219 Columbus Road
Athens, OH 45701

Ironton Ranger District
710 Park Avenue
Ironton, OH 45638

Marietta Unit Office
Route #1
Marietta, OH 45750

ADM	NEF IO NO	R / D	ST	CNTY NO.	C / D	P / M	TWP NO. / S	N	RNG NO. / W	E	GLO SEC NO.	TAB LINE NO.	ACRES ENCUM'D	DATE EXPIRES MMDDYYYY	ENCUMBRANCE TYPE	TYPE OF ENCUMBRANCE	PCT.	VESTED INTEREST
11	0401	03	OH	087	10	38	2.0	N	18.0	W	22	003	300.00	0X	RESERVATION	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	03	OH	087	10	38	2.0	N	18.0	W	21	002	322.21	0X	RESERVATION	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	03	OH	087	10	38	2.0	N	18.0	W	36	002	357.75	0X	RESERVATION	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	03	OH	087	10	38	2.0	N	18.0	W	25	001	474.00	0X	RESERVATION	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	01	OH	009	10	35	12.0	N	15.0	W	29	001	194.57	XX	MINERAL LEASE	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	01	OH	073	10	38	14.0	N	16.0	W	25	001	24.21	0X	OUTSTANDING RIGHT	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	01	OH	127	10	38	14.0	N	16.0	W	23	002	38.69	0X	OUTSTANDING RIGHT	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	01	OH	127	10	38	14.0	N	16.0	W	12	002	40.00	0X	OUTSTANDING RIGHT	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	01	OH	127	10	38	14.0	N	16.0	W	13	002	160.00	XX	OUTSTANDING RIGHT	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	01	OH	127	10	38	14.0	N	16.0	W	14	001	200.00	0X	OUTSTANDING RIGHT	C O/G OTH MIN-CK RMK	100	PRIVATE
11	0401	03	OH	145	06	38	3.0	N	19.0	W	24	001	568.89	XX	MINERAL LEASE	OTH MINERALS ON LIST	0	COUNTY
11	0401	01	OH	111	18	38	2.0	N	4.0	W	34	005	59.09	04031893	RESERVATION	COAL, GAS, AND OIL	100	PRIVATE
11	0401	01	OH	167	18	38	2.0	N	6.0	W	08	005	40.10	011Z1905	MINERAL LEASE	GAS AND OIL	100	PRIVATE
11	0401	01	OH	127	10	38	14.0	N	15.0	W	18	002	87.03	01141947	OUTSTANDING RIGHT	GAS AND OIL	100	PRIVATE
11	0401	03	OH	087	10	38	4.0	N	18.0	W	23	001	120.70	12141956	MINERAL LEASE	COAL	100	PRIVATE
11	0401	03	OH	087	10	38	3.0	N	18.0	W	36	003	160.00	05091963	RESERVATION	ALL MINERALS	100	PRIVATE
11	0401	01	OH	167	18	38	2.0	N	6.0	W	30	003	101.53	06091967	MINERAL LEASE	GAS AND OIL	100	PRIVATE
11	0401	01	OH	127	10	38	14.0	N	15.0	W	20	004	63.40	07021976	RESERVATION	ALL MINERALS	100	PRIVATE
11	0401	01	OH	127	10	38	14.0	N	15.0	W	30	003	172.69	07021976	RESERVATION	ALL MINERALS	100	PRIVATE
11	0401	01	OH	111	18	38	4.0	N	7.0	W	05	001	78.63	07231979	OUTSTANDING RIGHT	COAL	100	PRIVATE
11	0401	01	OH	167	18	38	3.0	N	7.0	W	13	002	40.00	06051980	RESERVATION	COAL, GAS, AND OIL	100	PRIVATE
11	0401	03	OH	145	06	38	4.0	N	19.0	W	34	003	20.00	12311980	RESERVATION	COAL OIL GAS OTH MIN	100	PRIVATE
11	0401	03	OH	145	06	38	4.0	N	19.0	W	35	001	42.82	12311980	RESERVATION	COAL OIL GAS OTH MIN	100	PRIVATE
11	0401	01	OH	167	18	38	2.0	N	6.0	W	09	003	95.05	04251981	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	01	OH	167	10	38	3.0	N	6.0	W	09	007	18.32	07251981	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	053	10	38	4.0	N	16.0	W	30	001	72.68	10211984	MINERAL LEASE	ALL MINERALS	100	PRIVATE
11	0401	01	OH	167	18	38	2.0	N	6.0	W	09	012	60.04	04251986	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	087	10	38	5.0	N	17.0	W	03	007	84.30	12201984	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	087	10	38	5.0	N	17.0	W	11	007	94.97	12201984	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	087	10	38	5.0	N	17.0	W	02	007	97.90	12201984	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	087	10	38	5.0	N	17.0	W	10	003	126.00	12201984	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	053	10	38	4.0	N	16.0	W	30	001	72.68	10211984	RESERVATION	COAL, GAS, AND OIL	100	PRIVATE
11	0401	01	OH	167	18	38	2.0	N	6.0	W	18	005	101.58	12311985	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	01	OH	167	10	38	3.0	N	6.0	W	13	002	97.42	12311985	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	053	10	38	5.0	N	16.0	W	17	001	.01	10301985	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	053	10	38	5.0	N	16.0	W	08	002	14.32	10301985	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	053	10	38	5.0	N	16.0	W	09	001	76.42	10301985	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	053	10	38	5.0	N	16.0	W	18	001	90.73	10301985	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	03	OH	087	10	38	4.0	N	17.0	W	19	014	29.18	12281985	RESERVATION	COAL, GAS, AND OIL	100	PRIVATE
11	0401	03	OH	087	10	38	4.0	N	17.0	W	17	001	40.00	12281985	RESERVATION	COAL, GAS, AND OIL	100	PRIVATE
11	0401	01	OH	167	10	38	3.0	N	6.0	W	08	001	39.91	07251986	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	01	OH	167	10	38	3.0	N	6.0	W	08	002	39.91	07251986	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	01	OH	111	18	38	4.0	N	5.0	W	27	001	61.84	01011986	RESERVATION	GAS AND OIL	100	PRIVATE
11	0401	01	OH	009	10	35	12.0	N	15.0	W	23	002	72.60	05221986	RESERVATION	COAL, GAS, AND OIL	100	PRIVATE
11	0401	01	OH	009	10	35	12.0	N	15.0	W	22	001	524.59	05221986	RESERVATION	COAL, GAS, AND OIL	100	PRIVATE
11	0401	01	OH	073	10	35	13.0	N	15.0	W	29	001	33.13	07091986	RESERVATION	COAL, GAS, AND OIL	100	PRIVATE
11	0401	01	OH	073	10	35	13.0	N	15.0	W	18	001	162.12	05281986	RESERVATION	COAL, GAS, AND OIL	100	PRIVATE

Mineral Interests in the Wayne N.F. to Revert to the United States

Year	Acreage
1989	3,288
1990	3,878
1991	6,592
1992	7,004
1993	1,723
1994	4,383
1995	771
1996	1,538
1997	2,877
1998	3,148
1999	1,815

United States Department of the Interior

BUREAU OF LAND MANAGEMENT
EASTERN STATES OFFICE
350 SOUTH PICKETT STREET
ALEXANDRIA, VIRGINIA 22304

IN REPLY
REFER TO:

3100(971)PCL

14 MAR 1989

RECEIVED
MAR 27 1989
BUREAU OF LAND MANAGEMENT
MILWAUKEE DISTRICT OFFICE

B

Memorandum

To: Deputy State Director, Mineral Resources

Through: Chief, Branch of Minerals Adjudication

From: Patricia Ledwell, Land Law Examiner, Northern Adjudicative Section, Branch of Minerals Adjudication

Subject: Trip Report - Meeting with the Southeastern Ohio Oil and Gas Association and Personnel at the Wayne National Forest in Marietta, Ohio, February 22-23, 1989

I attended the above-mentioned meeting with Tim Abing, Petroleum Engineer in the Division of Fluid Minerals, Milwaukee District Office to discuss the Federal Onshore Oil and Gas Leasing Reform Act of 1987 (Reform Act) as it pertains to Future Interest Leasing Procedures, i.e., where private mineral estates will expire and then subsequently vest to the United States.

On Wednesday, February 22 Tim and I drove to the office of Carlton Oil Corporation located in Newport, Ohio where we met Dan Thompson, Operations Manager, of said corporation and three other members (Jack Clift, Dean Eddy and Carl Heinrich) of the Southeastern Ohio Oil and Gas Association (SOOGA) who later took us on a field trip in two of their vehicles so that we could see firsthand the oil and gas operations of SOOGA within the Wayne National Forest covering Washington and Monroe Counties. We viewed oil and gas wells of various independent oil producers and also Carlton Oil Corporation's holdings, which is one of the larger operations in the area. We witnessed the process where oil and gas was being extracted from the well and then separated. We were given explanations of various types of equipment and their uses. In the afternoon we drove to an area where a rig had been set up and actual drilling operations were being conducted on the leasehold. The independent oil producers within the Wayne National Forest are mostly "mom and pop" type operations where family members do the majority of the work required on the leasehold. Saturday is the busiest workday because most of these individuals have other jobs during the week to supplement their income. The oil and gas business that is being conducted within the Wayne National Forest by the independents and the income generated therefrom is considered to be on a very small scale compared to the larger oil companies elsewhere such as Amoco, Exxon, etc. While on the field trip, we were given a brief history of the area and we saw a couple of producing wells that have been in existence nearly 100 years. In addition to the oil and gas industry, cattle farming and timber are the only other major sources of income for the area. Those individuals who are not employed in the aforementioned capacities, travel to nearby towns to work in factories. The field trip began around 9:00 a.m. and ended approximately 4:30 p.m. back to the office of Carlton Oil Corporation.

There was a break for lunch in the afternoon at a restaurant in Woodsfield, Ohio where we met additional members of SOOGA and the Prosecuting Attorney (Walter R. Starr) for Monroe County. Discussion during lunch centered around the reversionary process of private mineral estates to the United States, recording of documents in the courthouse and tahe cost and process of obtaining abstracts of title. Later in the evening from 7:00 p.m. until approximately 10:00 p.m. Tim and I were invited to a casual reception and dinner at the home of Dean Eddy and his wife. Also present were the other members of SOOGA who accompanied us on the field trip, two members we met at lunch and the wife of one of the members.

On Thursday, February 23 from 10:00 a.m. until 12:00 noon Tim and I met with members of SOOGA and personnel of the Wayne National Forest at the forest's office in Marietta, Ohio. We went over the regulations thoroughly and emphasized the procedures concerning future interest leasing. The Forest Service personnel asked many questions regarding the regulations changing as a result of the Reform Act. They were not up-to-date on many aspects of the competitive process. They still had a supply of the now obsolete yellow Acquired Lands Lease Offer Form 3110-3 dated March 1978. I supplied them with copies of the current forms and also copies of the current regulations. We answered many questions that members of SOOGA asked that were repetitious because many of the answers to their questions had already been provided them through numerous telephone conversations, congressional correspondence and when I met with them in June 1988 during their visit to Eastern States. We again emphasized the nomination process of those lands where the United States owns a future interest in the mineral estate and that under the Reform Act all unleased lands must first be exposed to competitive bidding. We further explained distinctly the difference between future interest reversions and private leases. SOOGA fully understands the difference despite the fact that they would be happier if the regulations could be changed to eliminate the competitive process. They are very anxious because there are existing leases within the Wayne National Forest where the mineral rights will revert to the United States in 1992. We suggested to members of SOOGA to contact their political representative with their concerns because the Bureau of Land Management (BLM) must implement the statute now in effect. Tim talked in depth about post lease actions on Federal leases. He covered bonding procedures, plugging and abandonment of wells, applying for an Application for Permit to Drill, issuance of various types of permits, on-site inspection of wells, production and royalty accountability and various other functions of the Milwaukee District Office. During the meeting, Forest Service personnel mentioned that they are not getting copies of the competitive sale notices and would like to receive them especially if the lands are located in their forest. It was also mentioned that the competitive sale for parcels within the Wayne National Forest should be held in Columbus, Ohio to allow greater participation for area developers.

Tim is going to submit a proposal to the Washington Office as a result of the meeting with SOOGA that will outline basically the economic factors of leasing within the Wayne National Forest, e.g., problems, maintenance, labor costs, income, etc. The draft of this proposal will be submitted for Curt's review prior to finalization.

On the same day (February 23) following a break for lunch at Shoneys, Tim and I attended the Ohio Oil and Gas Association (OOGA) Region III meeting held at the Travel Host Inn in Marietta from 2:00 p.m. until 5:00 p.m. Thirteen members of SOOGA a/k/a Region III were in attendance. Barry Ferguson, Manager, Public Affairs of OOGA presided over the meeting. Mr. Ferguson briefed Region III members on upcoming events, bills that had been introduced and passed pertaining to oil and gas operations at the State level and gave a summary of the previous meeting. Later during the meeting, Tim and I were introduced as representing BLM and we basically covered the same material on Federal mineral leasing procedures as we did at the morning meeting with Forest Service personnel and SOOGA members.

Patricia Ledwell

Patricia Ledwell

Certificate of Appreciation

This is to certify that

Tim Abing

Has Done Good !!

3/1/89
Date

Eastern States Director, BLM

From the Desk
Of The
Eastern States Director

Tim:

I really appreciate your efforts
to try and make the transition
as easy as possible from your
role in SE Ohio.
I know the folks
there will miss you.

Best of luck in your new
job. Keep the problems
coming!

Thanks again. You did good!

CJ

United States
Department of
Agriculture

Forest
Service

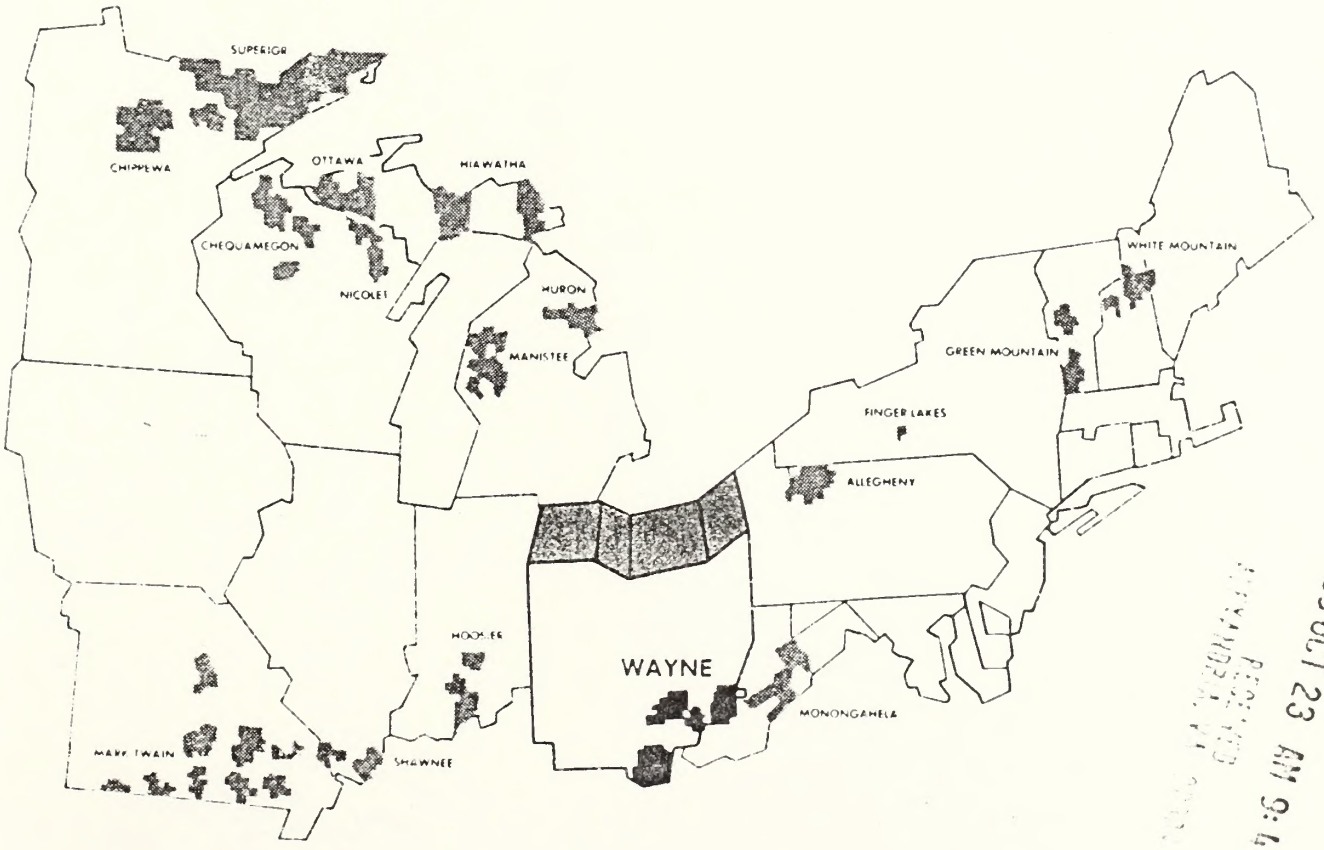
Eastern
Region

Record of Decision

Final Environmental Impact Statement Land and Resource Management Plan

WAYNE NATIONAL FOREST

RECEIVED
OCT 31 1989
BUREAU OF LAND MANAGEMENT
MILES DISTRICT OFFICE



89 OCT 23 AM 9:45

Record of Decision

Final Environmental Impact
Statement
Land and Resource Management
Plan

WAYNE NATIONAL FOREST

MANAGEMENT PROBLEM--MINERAL ACTIVITIES

Demand for surface and subsurface resources causes considerable competition for National Forest System land use, especially where minerals are non-federal.

Reverting Mineral Rights

Decision

When mineral rights revert to the U.S., the Forest Service will recommend lands for leasing if there are no over-riding reasons not to.

Reason

Because the U.S.A. only owns 7 percent of the mineral rights, minerals was not discussed in the DEIS and the Plan other than in the standards and guidelines. Many people strongly emphasized the need to discuss effects of alternatives on mineral operations because more mineral rights will revert to the U. S. They are also concerned about the future of their mineral operations in Management Area 6.2 when their mineral rights expire with mineral ownership reverting to the U.S.

It is estimated that USA-owned minerals will increase from the current 7 percent to 25 percent by 1995. Although the overall effect of alternatives on minerals is slight, minerals are discussed in Chapter 1 of the FEIS and throughout the Plan. A standard and guideline has been added that states that it is Forest policy to recommend to the Bureau of Land Management that existing mineral rights operators should be given priority status in continuing on a noncompetitive basis as the existing operator when mineral rights revert to the U.S. and where leases are to be renewed, unless there is reason not to for cause.

Oil and Gas Development

Decision

Oil and gas exploration and extraction will continue on USA-owned leases. Mineral operators will not be denied access across National Forest System lands to their well sites.

Reason

A large number of commenters, particularly from an area on the Marietta Unit, are concerned about restrictions on oil and gas exploration and development in Management Area 6.2. They are concerned that restrictions will result in lost jobs and income. Other people are concerned about the impact of mineral activity on the many natural features of the Forest.

Final decisions on site-specific projects will be made during Forest Plan implementation after appropriate analysis and documentation that meets National Environmental Policy Act requirements. Parties dissatisfied with a specific project should appeal the site-specific decision, once it is made.

The appeal process for projects is the same as that described above for the Forest Plan, except notice of appeal must be sent to the person making the decision. This will normally be a District Ranger or the Forest Supervisor.

Floyd J. Marita

FLOYD J. MARITA
Regional Forester

JAN 4 1988
DATE

Date Record of Decision Was Signed

RIGHT TO APPE

BORROWER'S CARD

1990

al reversions
nds

	OFFICE	DATE RETURNED

(Continued on reverse)

BLM LIBRARY
SC-653, BLDG. 50
DENVER FEDERAL CENTER
P. O. BOX 25047
DENVER, CO 80225-0047